

Adnan Zaylani Mohamad Zahid: Opening address - IFMC Roundtable at Global Islamic Finance Forum

Opening address by Mr Adnan Zaylani Mohamad Zahid, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the IFMC Roundtable at the Global Islamic Finance Forum (GIFF) 2025, Kuala Lumpur, 15 October 2025.

* * *

It is my great pleasure to be part of this Islamic Financial Market Committee Roundtable held in conjunction with the Global Islamic Finance Forum (GIFF) 2025. I welcome you all to this gathering that, in my view, offers an excellent platform to deepen our discussions and strengthen our collaboration and trust within our Islamic financial market community.

Malaysia's commitment to a comprehensive financial market ecosystem

Ladies and gentlemen,

Islamic finance has progressed and evolved significantly in Malaysia over the past four decades. The establishment of the first Islamic bank in 1983, marked a pivotal point in our financial landscape. In the same year, the government issued its first sovereign sukuk in the form of Government Investment Certificate (GIC) to address the critical need for Shariah-compliant, high-quality liquidity instruments. These were later replaced by Malaysian Government Investment Issues (MGII), laying the foundation for the development of Islamic capital market.

As the number of players grew, in 1994, the Islamic Interbank Money Market (IIMM) was introduced to facilitate short-term investments based on Shariah principles, enabling participants to efficiently manage funding and liquidity risk. The IIMM is integral to the functioning of an efficient Islamic banking system: firstly, in providing the Islamic financial institutions with the facility for short-term funding and liquidity management, and secondly, serving as a key channel for monetary policy. Beyond this, the IIMM serves a significant market clearing and intermediation function by enabling efficient deployment of funds, in particular surplus funds to be allocated and reallocated across the banking system. This effectively aggregates individual financing capacity to form a resilient, collective financial sector financing frontier of which, I believe, the total is greater than the sum of its parts.

Today, Islamic finance is the mainstream option in Malaysia's financial system. The Islamic capital market account for 63% of our financial system, making it a vital pillar of our capital market¹. Islamic money market instruments maintain a significant share and have seamlessly expanded in tandem to support the growth of the Islamic banking industry – which now constitutes 2% of total financing. Malaysia is also home to the largest sukuk market globally, commanding 37% of total global sukuk outstanding². As a testament, Malaysia was ranked first in the Islamic Finance Development Indicator (IFDI) 2024 for the 12th consecutive year, reinforcing its position as the most comprehensive market for Islamic finance.

Future-Proofing the market – one step after another

Progress has been made, but Malaysia's journey is far from over. We continue to undertake efforts to build a forward-looking Islamic finance ecosystem with the following strategies –

First, broadening the sukuk investors pool beyond traditional segments. Malaysia is committed to building a resilient, inclusive and globally connected Islamic financial market. A key priority is to broaden the investor base beyond traditional segments, particularly by enhancing the appeal of Islamic instruments to non-resident investors and institutional participants. This requires addressing structural limitations, diversifying sukuk structures and aligning with international Shariah interpretations to ensure greater tradability and market accessibility.

To further advance the development of Malaysia's Islamic financial market, the Government of Malaysia introduced the *wakalah bi al-khadamat* structure in 2024. Serving as an alternative to *murabahah*, sukuk structured under *wakalah bi al-khadamat* fulfil the criteria set by both domestic and international Shariah authorities for secondary market tradability, addressing concerns related to debt-based sukuk. The inaugural issuance of the *wakalah bi al-khadamat* structure is scheduled for 2026, and we look forward to broader international participation in this developmental journey. This marks a measured yet meaningful step towards Malaysia's commitment on innovation and inclusivity.

Looking ahead, the introduction of this structure is anticipated to narrow the market gap between the sovereign bond and sukuk market by improving secondary market trading and enhancing investor acceptance to Malaysia's sovereign instruments, especially among foreign players. This initiative is expected to further reinforce Malaysia's position as a global leader in Islamic finance, complementing its broader strategy to diversify offerings and respond to evolving market demands.

Second, building a future-oriented market infrastructure, conducive for innovation.

Malaysia also has a bold vision for its Islamic finance – to establish a comprehensive Islamic financial market, anchored by a holistic, end-to-end Shariah-compliant ecosystem. A key component of this vision is the adoption of robust, transaction-based benchmark rates that reflect actual market activity, support product innovation and align with global standards. This infrastructure must also be sufficiently agile to embrace emerging technologies to enhance market access and efficiency.

To realise this vision, Malaysia has launched the Malaysia Islamic Overnight Rate (MYOR-i), the world's first transaction-based Islamic benchmark rate, aiming to spur the development of innovative Shariah compliant financial products. MYOR-i replaces the Kuala Lumpur Islamic Reference Rate (KLIRR), due to its lack of compliance with global standards for financial benchmarks. MYOR-i is designed based on International Organisation of Securities Commissions (IOSCO)'s Principles for Financial Benchmarks and is calculated based on the volume-weighted average rate of return on Shariah-compliant unsecured overnight interbank

Since its launch in 2022, MYOR-i has demonstrated its reliability and robustness as a financial benchmark with daily average volume of Islamic unsecured overnight interbank transactions increasing from RM 1.9 billion in 2023 to RM 2.8 billion in 2024. This transition to MYOR-i is not merely a technical shift, but a strategic leap forward to future-proof Malaysia's Islamic financial landscape. It is a journey that demands foresight, collaboration and steadfast commitment from all stakeholders, to actively prepare for the mandatory transition. Following industry-wide engagement, a comprehensive transition roadmap will be issued by the Bank later this quarter.

A successful transition to MYOR-i for Islamic financial products requires thorough preparation and coordinated action across several key areas: first, industry support and readiness, including system enhancements, product development, and operational alignment to ensure seamless integration of MYOR-i; second, market development: we need to enhance the diversity of market participants and promote a more dynamic interbank market by encouraging banks to manage liquidity via the interbank money market as opposed to relying heavily on central bank facilities; and third, enhance liquidity of Islamic hedging instruments, through wider adoption of the Tahawwut Master Agreement (TMA), enabling banks and corporates to effectively manage risks in a Shariah-compliant manner. Industry players must continue to build trust, establish credit lines and transact with each other. The improved liquidity of Islamic profit rate hedging instruments would pave the way for a wider adoption of MYOR-i.

And finally, advancing repo instruments to deepen the market. Malaysia remains steadfast in advancing Islamic finance by deepening the market to enhance dynamism and competitiveness. Efforts have been undertaken to improve operational efficiency and liquidity in the Islamic Interbank Money Market (IIMM).

In July this year, Malaysia's first-ever Sustainable SBBA transaction was brought to life through strategic industry collaboration. This innovative development incorporates the Sustainable Use of Proceeds Annex, which embeds a scalable mechanism for sustainability across all eligible SBBA. The industry also enhanced the existing SBBA model, by incorporating best practices from the globally recognised Global Master Repurchase Agreement (GMRA) in conventional banking space. It integrates advanced features such as margining, asset substitution mechanisms and refined Shariah principles. The enhanced SBBA structure and the landmark sustainable transaction represent a strategic shift towards a more dynamic and future-ready Islamic financial ecosystem.

The enhanced SBBA structure, coupled with the issuance of the Islamic Collateralised Funding Policy Document in 2024, demonstrated its transformative impact. Since its implementation, the standardisation of Islamic repo transactions has significantly improved the activity of the Islamic Interbank Money Market (IIMM), with secured interbank transaction volumes more than tripling from RM12.6 billion in 2023 to RM42.6 billion in 2024. This momentum has continued, with RM34.8 billion in trades recorded in the first half of 2025, underscoring strong market adoption and growing liquidity.

Call to action: Innovate, or get left behind

Ladies and gentlemen,

As we gather here today, we must continue to ask ourselves – "What's next?" That is the spirit behind this roundtable-to design a market for the future. It is a call to challenge conventions, embrace new ideas and push the boundaries of what Islamic finance can achieve.

With emerging technologies and shifting market dynamics, the market must continue to drive innovation. Among the observable opportunities are tokenisation of assets, which seeks to broaden access to retail and global investors; green and Sustainable and Responsible Investment (SRI) finance, which is on the rise and rapidly expanding; and waqf-based instruments to mobilise philanthropic capital, reinforcing the ethical and social impact of Islamic finance. This includes the recently announced Cash Waqf Sukuk by the Government, allowing investors to endow either the principal or the periodic returns, transforming the funds into a lasting charitable endowment for the benefit of society.

A key highlight in our efforts to continue innovating is the signing ceremony which we will witness today, first the signing of a Memorandum of Understanding (MoU) between industry captains on the enhanced SBBA and the Tahawwut Master Agreement (TMA) and second the signing of a Cross Currency ESG SBBA between HSBC Amanah, RHB Islamic, Standard Chartered Saadiq and UOB.

These are commendable initiatives by the industry, reflecting shared commitment to standardisation, risk management, and the development of robust Islamic financial infrastructure while aligning with global sustainability. This is what unfolds when we dare to ask "What's next?"

Before I conclude, I would like to touch on a point for clarity that is important for the industry and practitioners to have as we move forward. I shared this perspective at the GIFF 2025 wrap-up session yesterday. Frequently, and even during GIFF 2025, one call to action that we have often made for the industry has been to innovate and expand with risk-sharing instruments, i.e; equity type instruments. For clarity, it is not our intent to replace debt-based instruments. Debt has its place in the economy and in the Islamic economy and I mentioned yesterday, there is no Shariah issue with respect to debt in Islamic finance today. Neither we are saying or should say one is more Shariah compliant than another. Debt receives quite an extensive mention in the Quran and Sunnah but there are no prohibitions apart from the practice of *riba* and *gharar*. When one compares to for example, the prohibition of liquor or alcohol which is absolute, the late scholar Sheikh Yusuf al-Qaradawi, in one of his writings, rationalised this specific prohibition. While, according to some medical research, there is some benefit to its consumption, but the harm it can do overwhelms the benefits. If we extended this methodical rationalization to debt, and even in traditions there is recognition that there is some harm in incurring debt, one would have to conclude that the lack of explicit prohibition means that there are indeed many benefits as well. Look at today's Islamic banking system where almost all of the 47% share is debt-based instruments. One needs to ask the question, "Would we have been able to advance as such without it?" Indeed, most of our discussion today centres around debt-based instruments. To come back to our call to action on risk-sharing instruments, I should then emphasize that the call is to innovate and expand. Islamic finance can be versatile and the call to innovate and expand with risk-sharing instruments could further expand Islamic finance's financing frontier into new areas of growth, in particular areas where indeed some

equity participation could provide a more balanced approach to financing, bring in new partners and more. These growth areas in particular in high-end manufacturing and industry, sustainability or climate related projects and even infrastructure could do with these innovations.

Conclusion

Malaysia's Islamic financial market has come a long way-built on decades of commitment and hard Progress of this scale cannot be achieved in isolation. It demands the collective effort of regulators, market participants, Shariah scholars, and international stakeholders. The steps we take today will shape its trajectory for decades to come. Together, we must continue to challenge conventions while upholding the Shariah principles in everything we do. Let us be guided by the timeless wisdom of the Quran:

"Cooperate with one another in goodness and righteousness, and do not cooperate in sin and transgression" [Al-Maidah: 2].

With shared purpose and conviction, I am confident that together, we can continue to build a vibrant, inclusive, and future-ready Islamic financial ecosystem- one that not only meets the needs of today but also inspires trust and confidence for tomorrow. On this note, let the IFMC Roundtable Discussions begin – I wish you all a productive discourse ahead.

Thank you.

¹ Securities Commission Malaysia, Statistics for Islamic Capital Market in Malaysia

² IIFM Sukuk Report 2024