

MALAYSIAN ISLAMIC FINANCE (MIF) 2007 – ISSUERS & INVESTORS FORUM

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MANDARIN ORIENTAL HOTEL

LUNCHEON SPEECH BY DATO' YUSLI MOHAMED YUSOFF, CEO OF BURSA MALAYSIA BHD

Distinguished guests,

Ladies and gentlemen,

Assalamu'alaikum warahmatullahi wabarakatuh and salam sejahtera

I am indeed pleased to be here today at the MIF 2007. Events such as this are important platforms for the exchange of views on the future direction and development of the Islamic finance industry. It is my hope that the sharing of knowledge and experience amongst the participants gathered here will contribute towards the advancement of Islamic finance, specifically the Islamic capital market.

There has been much talk about developing Malaysia as a centre for Islamic excellence on various fronts. As it stands, Malaysia is already recognized as having great potential to be a world-leading Islamic financial hub. Currently, 86% of all securities listed on the exchange are classified as Shariah-compliant. This accounts for approximately RM591 billion or 64% of the total market capitalization. This also has provided the platform for the development of the Islamic fund management and unit trust sector. In 2006 as well, the market saw the listing of an Islamic REIT – a world's first. Our Islamic bond market on the other hand, is one of the world's largest and we have for some time now led the way in the development of Islamic financial instruments, especially in Asia.

The growth of the Sukuk market, for example has been particularly impressive. In 2006, over 55% of all bonds issued in Malaysia were Sukuks – with total value of RM42 billion. In fact, it is widely known that Malaysia originates over two-thirds of the world's Sukuk issues. Just last month, we witnessed the listing of the country's largest Sukuk valued at USD1 billion on the Labuan International Financial Exchange. This landmark Sukuk al-Ijara was issued by a leading residential real estate developer in Saudi Arabia. Given the growing interest on the part of investors from South East Asia in Middle Eastern instruments, we are confident that the listing of this Sukuk on the

LFX will provide the platform to enhance the liquidity and trading of Sukuks among international investors.

Ladies and gentlemen,

Islamic capital market products and services are now an integral component of the Malaysian capital market, offering viable and competitive financing and investment tools as alternatives to conventional products and services. Suffice to say that over the years, the Islamic capital market grown steadily into expansion of products, infrastructure, institutions, intermediaries and investors. This is proof that this sector has and will continue contributing to the development and deepening of Malaysia's entire capital market.

I acknowledge that the Malaysian Islamic capital market has achieved tremendous growth in the past few years but I believe its full potential has still not been realised. The strong growth of the economies in Asia has generated substantial demand for Shariah-compliant products and today, Malaysia is one of the region's foremost providers in serving these investors' interests.

More than two-thirds of stocks listed on Bursa Malaysia are Shariah compliant as recognized by the Securities Commission's Shariah Advisory Council (SAC). This paved the way for Bursa Malaysia to launch its first Shariah Index in 1999 and from thereon, gradually upgrade to the globally-accepted FTSE-Bursa Malaysia index series that now tracks the performance of Shariah-compliant stocks listed on the Main Board of the Exchange. We have also seen the strong growth of Islamic funds in Malaysia. Currently, there are about 100 Islamic funds available with a total net asset value amounting to RM9.2 billion. This is in comparison to RM97 million in 1993. Without a doubt, we will see huge opportunity for the Islamic unit trust industry to grow even further. This development demonstrates the interest in Islamic funds, which are growing due to increased investors' demand for an alternative investment philosophy such as Shariah-compliant investments.

Ladies and gentlemen,

For some time now, Bursa Malaysia has been working towards producing solutions that will meet investors' needs on the Islamic front, both local and international. We

have included more products that comply with globally-acceptable Shariah requirements which appeal to the global Islamic investment community.

Our Shariah indices, namely the FBM Hijrah Shariah and FBM Emas Shariah Index, are perfect examples of ensuring Shariah-compliance as well as achieving international compatibility and acceptability. In terms of performance, the FBM Emas Shariah index is outperforming the conventional index, FBM 100 index, by 26% as at 31 July 2007. The Shariah-compliant indices are poised to further attract global Islamic investors and specifically, the FBM Hijrah tradeable index can be used for the creation of Shariah-compliant investment products. More importantly, the Islamic indices serve as an impetus for us to further internationalise our Islamic capital market and increase our market's competitiveness.

In addition, we are currently working with Bank Negara Malaysia and other parties to develop an infrastructure that enables crude palm oil to be used as the underlying instrument for Islamic banking transaction. Such commodity-based Murabahah transactions are vastly used in Europe and West Asia but a CPO based one will be a first for Malaysia.

Bursa Malaysia will also work closely with the Government and relevant parties in aiming for the first Islamic Exchange Traded Funds (ETFs) to be listed on the exchange by end of this year. I believe that the Islamic ETF will provide added diversity to our offerings, bridging gaps between us and other global Islamic markets. I have no doubt that the listed Shariah-compliant ETF would meet the demand of investors and promote the country as an international Islamic financial centre.

The Islamic capital market products are unique in that they are not just Islamic, but they exhibit inherent elements of corporate social responsibility with a strong bias towards sustainable development. In Malaysia, we have already established a portfolio screening process in the form of Shariah-compliant funds. The difference between Shariah-compliant funds and their conventional counterparts is the former follow religious guidance rather than the voluntarily investment in a company which is perceived as socially responsible. Therefore, the principles of responsible investing form important pillars for the Shariah-compliant funds available in the Malaysian market today.

To conclude, allow me to say that the potential growth in the Shariah-compliant global market is enormous and there is a need for greater effort to uncover the potential

investment opportunities. The key to doing so lies in shifting our mindsets - beyond merely catering to the investment needs of Muslim investors to introducing products that are acceptable to all in the global financial arena. Doing so will elevate our Islamic products beyond the realm of Shariah compliance alone and widen the base of prospective investors. We still have some ways to go, but clearly, we are making headway and it is thanks to the interest of people like yourselves that we continue to receive useful feedback on the work that we are currently doing to advance our Islamic expertise.

Thank you.