Enhancing regional and international financial linkages
integrated

3.1 Strengthening regional and international financial integration

3.2 Internationalisation of Islamic finance
strengthening regional and international financial integration

Strengthened ties with regional and international economies are key foundations in Malaysia’s transition towards becoming a high value-added, high-income economy. Stronger cross-border linkages will serve to enhance trade and investment opportunities by expanding the market for final demand, increasing capital accumulation and improving factor productivity. Such cross-border linkages will also enhance opportunities for Malaysia and the region to capitalise on the diverse comparative advantages in the region.
The Malaysian financial sector has made significant strides in facilitating the country’s cross-border linkages with other economies. The overseas expansion of Malaysian financial institutions over this recent decade has supported the increasing trend in investments abroad by Malaysian corporations pursuing new opportunities and markets, particularly in the energy, construction, plantation and services sectors. The financial services provided by Malaysian financial institutions through their regional network have helped the growth and consolidation of the operations of Malaysian businesses in the region and other parts of the world.

To date, six out of eight domestic banking groups have an established presence in 19 countries worldwide, with substantial overseas operations centred in Southeast Asia. The significance of these operations has grown considerably. As at end-2010, the total overseas assets and contribution of overseas pre-tax profit of Malaysian banking groups were RM240.2 billion and 13.6% respectively, compared to RM3.3 billion and -4.3% respectively in 2002.

The international character of the Malaysian financial system has also been enhanced with the gradual liberalisation of the financial sector in this recent decade.

<table>
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<tr>
<th>Malaysia to be more regionally &amp; internationally integrated</th>
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<tr>
<td>• Creation of an ASEAN Economic Community (AEC) by 2015</td>
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<tr>
<td>• Closer regional trade integration, through ASEAN &amp; other bilateral or regional free trade agreements</td>
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<tr>
<td>• Malaysian corporations venturing abroad to expand business opportunities</td>
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<tr>
<td>• Labour &amp; specialised talent increasingly more mobile</td>
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<td>• Greater spill overs from dynamism of Asian economies</td>
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The international character of the Malaysian financial system has also been enhanced with the gradual liberalisation of the financial sector during this period. 27 foreign banks from 14 countries have a presence in Malaysia. With the strengthening of domestic financial institutions, greater operational flexibilities have been accorded to incumbent foreign institutions, thus enhancing their potential to contribute to the economy and to balanced growth. More meaningful foreign participation in the financial system was also facilitated through the entry of new institutions to serve Malaysia’s new growth areas, as well as higher foreign equity limits in domestic financial institutions. The progressive approach towards liberalisation of the financial sector has contributed to the further development of domestic financial institutions in a more competitive market, and prepared the foundations for an enhanced role of the Malaysian financial system in facilitating regional and international economic activity, while preserving the stability of the overall financial system.

Source: Department of Statistics, Malaysia
Regional economic & financial integration to gather momentum

<table>
<thead>
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<th>Intensification of intra-regional trade &amp; investment</th>
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<tr>
<td><strong>Trade Integration</strong></td>
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<td>• Increasingly liberalised trade &amp; investment environment</td>
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<td>• Bilateral or regional free trade agreements to intensify</td>
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<td><strong>Financial Integration</strong></td>
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<td>• Recycling of Asia’s surplus savings to the region especially for infrastructure investments</td>
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<td>• Asian Development Bank: Asia needs to invest about USD8 trillion from 2010 to 2020 (USD750 billion a year)</td>
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As Asia contributes more significantly to global growth and engages in even greater intra-regional trade and investment activities, a larger number of Asian financial institutions that can effectively intermediate the region’s surplus funds to productive investments, facilitate cross-border capital flows and support the regional expansion of Asian corporations on a larger scale, will emerge. In addition, as economic and financial integration in Asia intensifies, cost considerations will accelerate the use of local and regional currencies for payments and settlements.

Beyond Asia, emerging economies in other regions will also gain greater prominence in the global economy. Malaysia will pursue initiatives to enhance financial sector linkages with other emerging economies to support mutually-reinforcing growth. Meanwhile, Malaysia’s international linkages will also be strengthened through the continued growth of Malaysia International Islamic Financial Centre (MIFC) and the Labuan International Business and Financial Centre (Labuan IBFC). These efforts will also be complemented by the ongoing and progressive liberalisation of Malaysia’s foreign exchange administration rules, which will be accompanied by appropriate safeguards to preserve financial stability.
It is envisioned that the Malaysian financial sector will evolve to be regional in orientation and internationally connected to increasingly intermediate regional and cross-border financial flows. In the Islamic financial system, this will extend beyond the region to other parts of the world. Malaysian financial institutions will have enhanced capacity to adequately serve the needs of Malaysian corporations going abroad. The Malaysian financial sector will also be well positioned to provide a full suite of products and services to support the financial requirements of international and regional corporations that invest and expand their businesses in Malaysia.

Liberalisation will create new opportunities in the Malaysian financial sector and contribute towards enhancing Malaysia's trade and investment linkages with other parts of the world. Going forward, policies on foreign investment in the financial sector through the issuance of new licences or the acquisition of significant equity interests in Malaysian financial institutions will be guided by two key considerations. The first relates to the prudential criteria and the second is for the investment to be in the best interest of Malaysia. Prudential criteria will include the consideration of the financial strength, business record, experience, character and integrity of the foreign investor; the soundness and feasibility of the business plans for the institution in Malaysia; the transparency and complexity of the group structure so as not to impede effective regulation and supervision by the Bank; and the nature and extent of supervision of the foreign investor in its home country.

In ensuring that the best interest of Malaysia is met, the following considerations will be taken into account:

- The effect of the foreign investment on economic activity in Malaysia, having particular regard to the contribution of the foreign investment in promoting and catalysing new high value-added economic activities, addressing demand for financial services in areas where there are gaps, and providing high-skilled employment opportunities.

The Malaysian financial sector will evolve to be regional in orientation and internationally connected to increasingly intermediate regional and cross-border financial flows.
Also important is the contribution to enhancing productivity, efficiency and the quality of financial services.

- The extent to which the foreign investor will contribute towards enhancing international trade and investment linkages between Malaysia and other parts of the world.
- Contribution towards the internationalisation of Islamic finance and support for Malaysia's evolution as an international hub for Islamic finance.
- The impact the investment will have on financial stability, including on the level of competition in a specific market and on market behaviours that could result in a risk to financial stability.

A further consideration in assessing the best interest of Malaysia is the degree and significance of participation of Malaysians in domestic financial institutions. Similar to developed markets with strong and stable financial sectors, the continued presence of strong and well-managed domestic banking groups that mobilise more than a 50% share of resident deposits is important for the orderly growth and development of the financial sector. In this regard, the control of a certain significant share of domestic banking groups should continue to reside with Malaysians to promote and secure the best interests of Malaysia through the economic cycles and progressive stages of Malaysia's development.

The vision is for the Malaysian financial sector to be well developed and well connected to efficiently intermediate domestic and cross-border financial flows. This will be achieved through:

- A more open, competitive and diversified financial sector that will strengthen Malaysia's role in the effective and efficient intermediation of cross-border transactions and financial flows;
- The deepening of cross-border coordination and cooperation in financial regulation, supervision, surveillance, crisis prevention, and mechanisms for resolution; and
- Greater connectivity within the region to be supported by well-developed financial infrastructure and efficient information flows.
Recommendation 3.1.1

Promote greater foreign participation in the financial sector under a strategic and managed approach to evolve a financial sector that is more diversified and integrated with regional and international financial markets. The aim is to enhance the presence of regional and international financial institutions in Malaysia, whilst increasing the presence and significance of the activities of Malaysian financial institutions abroad. Financial institutions in Malaysia will have a greater role in intermediating and allocating capital across borders. Towards realising this potential, the Bank will pursue liberalisation measures while ensuring effective prudential safeguards to preserve financial stability. Key initiatives under this broad strategy include:

i. Issuing new licences to financial institutions with specialised expertise to support Malaysia’s high value-added economic activities, serve new areas of growth, promote financial market development, and contribute towards enhancing the development of skilled talent in Malaysia.

ii. According more flexible foreign equity participation in financial institutions to boost the level of productive innovation, quality of financial services and risk management practices, and that serves the best interests of Malaysia.

iii. Providing greater flexibility for onshore financial institutions to establish new delivery channels, while promoting greater financial inclusion and wider adoption of electronic payments. The expanded outreach of foreign banking institutions through this flexibility will therefore be implemented together with measures that will accelerate the development of alternative delivery channels and maintain a balanced distribution of branch locations to support the needs of underserved areas.
iv. Advancing collective initiatives that support regional economic integration under the ASEAN Economic Community. This would involve granting greater flexibilities on a mutually advantageous basis that will provide the environment for qualifying ASEAN financial institutions to assume more dynamic roles in driving regional financial and economic integration.

v. Establishing a financial sector investor relations platform that will serve as a comprehensive and efficient single point of interface to provide advisory services and information on Malaysia's financial regulatory environment and policy initiatives.

**Recommendation 3.1.2**

Deepen cross-border coordination and cooperation among regulators to promote the orderly provision of financial services in the region. This will ensure financial stability is preserved while realising efficiency gains from increased activities of Malaysian financial institutions abroad as well as regional and international financial conglomerates in Malaysia.

Towards this end, the Bank will undertake the following:

i. Pursue cross-border arrangements with other regulatory authorities with a view to achieve mutual recognition or to promote consistency of prudential and market conduct standards.

ii. Establish regional supervisory networks for home-host cooperation in supervision and crisis prevention, management and resolution.

These strategies are further elaborated in the chapter Regulation and Greater Regional and International Integration.
Recommendation 3.1.3

Establish well-developed financial infrastructure to facilitate increased cross-border financial intermediation, particularly in the area of payments and settlements for cross-border capital flows, trade and retail payments. This includes supporting initiatives at the ASEAN level to accelerate the adoption of a common set of standards on cross-border payments, benchmarked against international best practices and standards, and formulating a common guiding framework for implementation. This will serve to accelerate the integration of payments and settlements systems linkages for the cross-border intermediation of both wholesale and retail funds in the region. Efforts will be focussed on developing the regional infrastructure to reduce the cost of doing business, and enhancing the linkages among regional retail payment networks so as to expand region-wide services, such as cash withdrawals and cross-border electronic funds transfers and payments, to benefit the increasing levels of intra-regional tourism and movement of skilled labour. The initiatives will include:

i. Further expanding the use of local and regional currency payment arrangements on a bilateral basis with strategic regional trading partners.

ii. Developing infrastructure to support the issuance, trading and settlement of securities in international currencies.

iii. Collaborating with regulators in the region to effectively support the private sector in leading regional initiatives, particularly those under the Asian Payment Network.

The more significant presence and activities of Malaysian financial institutions abroad and greater presence of regional and international financial conglomerates in Malaysia require closer cross-border cooperation in financial surveillance, regulation and supervision, and the development of regional financial infrastructure.
iv. Intensifying efforts under ASEAN to promote the use of more cost-efficient channels for money remittances while ensuring sufficient safeguards to preserve the integrity of such remittances.

**Recommendation 3.1.4**

Enhance the position of the Labuan IBFC as a cost-effective and attractive regional operational hub for global corporations and investors to conduct their business in the region. This will involve:

i. Developing the role of the Labuan IBFC to support international trade and investments in specific business niches. This includes:
   - Positioning Labuan IBFC as a centre for captive insurance business by enhancing the Labuan IBFC as a preferred domicile for captives in the Asia-Pacific region.
   - Promoting more international trading and investment holding companies to establish operations in the Labuan IBFC.
   - Encouraging local conglomerates to use Labuan as a platform for outward investments in the region.
   - Promoting the leasing industry in Labuan.
   - Further developing the insurance industry in Labuan, including reinsurance and retakaful.

ii. Improving the ability of businesses in the Labuan IBFC to compete effectively through the creation of a more conducive and facilitative business environment. Initiatives are targeted to harness the business and financial eco-system in Labuan in line with its vision to be Asia’s most connected, convenient and cost-efficient international business and financial centre. The initiatives will involve the following:
• Allowing the co-location of Labuan entities to have their physical presence in other parts of Malaysia.
• Strengthen the capabilities of service providers such as insurance managers and trust companies to ensure the highest standards of ancillary services.
• Transform the Labuan International Financial Exchange into an efficient and effective exchange that provides a viable non-ringgit listing and trading platform for financial instruments.
• Promote further business growth in shipping through collaboration with the relevant authorities to encourage ship owners to incorporate their companies in Labuan and to obtain financing and insurance from Labuan-based companies. This is also aimed at boosting the development of the maritime industry in Malaysia by leveraging on the status of Labuan as the sole port of registry for the Malaysia International Ship Registry.
• Enhance incentives accorded to Labuan companies, including those involved in the oil and gas sector, to attract greater investments and in the process, further promote Labuan as a trading, financing and insurance hub.

The liberalisation measures for new foreign participation in the Malaysian financial sector will be implemented when the preconditions are in place to ensure an orderly transition to a more liberalised environment. Meanwhile, efforts to enhance the framework for the effective regulation and supervision of regional financial activities, as well as the financial infrastructure for regional payments and settlements will be undertaken concurrently on an ongoing basis in cooperation with other regulatory authorities in the region.
internationalisation of Islamic finance

The development of the domestic financial sector moving forward and the strengthening of its international dimension will not only contribute to Malaysia’s overall economic growth but also enhance its economic and financial linkages with other emerging economies and the international financial centres. Building on the progress achieved during the Financial Sector Masterplan 2001, Malaysia has developed a progressive and comprehensive Islamic financial system that contributes to the overall effectiveness and efficiency of the Malaysian financial sector.
Several important initiatives implemented to develop the requisite financial infrastructure, regulatory framework and incentive structure, while gradually liberalising the operating environment, have strengthened the Islamic financial system to become increasingly more competitive.

The progressive development of the Islamic financial system in the initial years has led to the launch of the national agenda to position Malaysia as an international Islamic financial centre (MIFC) in 2006. There has been increased interest by the global community in Islamic finance given its close linkage to economic activities and its key pillars of fairness, transparency, risk sharing, and prohibition of excesses and speculation. The MIFC agenda has provided the platform for Malaysia to extend the outreach of Islamic financial services beyond the domestic and regional markets. It has opened the doors for financial institutions to expand their Islamic financial activities by leveraging on the presence of a comprehensive Islamic financial system and supportive environment in Malaysia. Initiatives introduced were in five focus areas, namely sukuk origination and trading, Islamic fund and wealth management, international Islamic banking, international takaful and human capital development.

As a result of the wide ranging initiatives to develop the Islamic financial system in Malaysia, this recent decade has seen the contribution of Islamic finance to the Malaysian economy growing significantly. The Islamic finance value-added to gross domestic product (GDP) has advanced by an average rate of 32% per annum, and contributing a 2.1% share to Malaysia's GDP in 2009, compared to only 0.3% in 2000. This has also translated into greater job creation where employment in Islamic finance contributed 11% of total employment in the financial system. On the international front, Malaysia has evolved to become an international Islamic financial centre. Malaysia ranks highly in various global indices relating to Islamic finance, being the largest sukuk (Islamic bond) market in the world with 65% share (at USD96 billion in 2010) and among
the top investment destinations for Islamic funds. In the global takaful sector, Malaysia is the second largest takaful market with 26% share of global takaful assets in 2009 (PricewaterhouseCoopers Gateway to Asia: Malaysia, International Islamic Finance Hub - 2010). As at the end of 2010, Malaysia's takaful market recorded total assets of RM14.7 billion. Foreign participation in the domestic Islamic banking and takaful industry and the Islamic capital market has also been on an increasing trend.

Malaysia has also supported international efforts towards strengthening the international Islamic financial landscape, encompassing development of international standards and regulatory framework through the Islamic Financial Services Board (IFSB), and talent development through the establishment of a global university, the International Centre for Education in Islamic Finance (INCEIF). A recent important development in the international Islamic financial system was the establishment of the International Islamic Liquidity Management Corporation (IILM) in 2010, to facilitate efficient management of liquidity by Islamic financial institutions in the international financial system. The launch of the Bloomberg-AIBIM-Bursa Malaysia Sovereign Shariah Index (BMSSI) in early 2011 marked another significant milestone in the development of the global sukuk market. This was followed by the launch of the Thomson Reuters IdealRatings Islamic Indices in June 2011 as the first Islamic benchmark.
Islamic finance in Malaysia will continue to expand reinforced by the global expansion where creation, preservation and distribution of wealth are effectively undertaken by market participants in a manner that promotes the universal values of Shariah.

that offers research-based Shariah screening based on globally accepted standards to investors, money managers and analysts across a range of Islamic instruments.

On the international front, the attention given to Islamic finance by the financial community has increased following the global financial crisis, with particular interest in the prospects, potential role and relevance of Islamic finance in contributing towards global financial stability and more sustainable economic growth. Its adoption of universal ethical values of fairness, transparency and risk sharing has enforced this trend. The demand for Islamic finance is expected to emanate not only from the Muslim population but also from those with affinity for socially responsible objectives and those seeking ethical financial solutions where the central theme is a more equitable model that would foster sustainable growth, whilst preserving the environment and improving the overall socio-economic landscape. This is spurred by the growing significance of global ethical consumer movement where Socially Responsible Investment (SRI) is expected to be an important mainstream asset class by 2015. With this development, Islamic finance has an enhanced growth prospect given its close synergy with ethical finance.

In addition, while Islamic finance has been highly dynamic and innovative in focusing on the provision of financial solutions to the new requirements of the changing economic landscape in the domestic and international economy, it also focuses on the financial inclusion agenda. In this recent period, as its international dimension intensifies, Islamic finance will have a greater role in the intermediation and distribution of wealth across borders particularly among the emerging economies.
Moving forward, building from Malaysia’s position of strength and the global potential for Islamic finance, it is envisaged that Islamic finance in Malaysia will continue to expand, reinforced by the global expansion where creation, preservation and distribution of wealth are effectively undertaken by market participants in a manner that promotes the universal values of Shariah. This growth and development of Islamic finance will be supported by a dynamic Islamic financial ecosystem that will be conducive for the mobilisation of the increasing volumes of international Islamic financial flows.

To achieve this vision, the Islamic finance industry in Malaysia needs to:

- Effectively and efficiently intermediate cross-border financial flows, through a comprehensive range of innovative Islamic financial instruments offered by a diverse range of players;
- Competitively meet international business demands through the provision of cost-effective foreign currency funding arrangements supported by liquid Islamic financial markets and increased market connectivity;
- Be recognised as a reference centre for Islamic finance with Malaysia as the location of choice for knowledge development and talent management in Islamic finance; and
- Strategically enhance its international profile.
The recommendations outlined in this Blueprint to achieve the above goals will build upon the initiatives currently being implemented. The approach towards greater liberalisation in the Islamic finance industry will also continue to be undertaken to support Malaysia’s international Islamic finance agenda while ensuring the overall financial system stability is maintained at all times.

In sustaining its competitive position, Malaysia must continue to provide a conducive environment for the market players, including Islamic financial institutions as well as professional ancillary service providers in Islamic finance, to conduct their business. Elements such as a conducive tax environment, liberal foreign exchange administration policies, comprehensive infrastructure and strong economic fundamentals will be continuously enhanced.

In this endeavour, the Bank will continue to foster international cooperation as well as collaborate with the relevant ministries and Government agencies, financial regulators, market players in the Malaysian Islamic finance industry, as well as other multilateral agencies and national regulatory authorities to ensure the successful implementation and achievement of the vision for the Islamic finance industry and its increased internationalisation.

Malaysia to continue providing a conducive environment for the market players, including Islamic financial institutions as well as professional ancillary service providers in Islamic finance to conduct their business
Recommendation 3.2.1

Increase the diversity of players in the domestic Islamic finance industry to support a wider range of Islamic financial products and services that serves the best interest of Malaysia, by facilitating greater cross-border financial business and meeting the increasing demands of a wider and greater spectrum of investors and customer base. The ability to tap into growth areas will be enhanced by enabling the presence of new niche players and widen the scope of businesses of existing players. This includes:

i. Issuing new Islamic banking licences to institutions with specialised expertise to support the growth of cross-border wholesale and investment banking activities that will be able to provide a wider range of innovative Islamic financial services.

ii. Expanding the business scope of qualified International Islamic Banks in enhancing their roles to offer a wider range of financial solutions to businesses and contribute towards reducing the cost of cross-border trade and investment transactions.

iii. Issuing new takaful licences to institutions with specialised expertise to provide coverage to serve higher value-added economic activities and widen the provision of protection, in particular for large and specialised risks.

Recommendation 3.2.2

Support the growth of Islamic fund and wealth management industry that can offer innovative financial solutions to meet the more sophisticated investment demands of the increasingly affluent population particularly in Asia and the Middle East, thus positioning Malaysia as a regional and international centre for Islamic fund and wealth management. Efforts in this direction, in collaboration with relevant authorities, include:

i. Supporting international Islamic fund managers to attract greater participation and relocation of talent into the domestic fund management industry.

ii. Providing a conducive environment with appropriate prudential safeguards for Islamic banking players that venture into the following high value-added financial services:
   - asset management and private banking businesses;
   - global fund and administrator services;
   - global cash management business; and
   - trust business.

iii. Supporting the establishment of relevant vehicles for asset and wealth management such as asset managers, trust companies, family offices and foundations in Malaysia, including in the Labuan International Business and Financial Centre (IBFC).

iv. Promoting the wider integration of socially responsible investment principles through Islamic financial institutions.
Enhance liquidity in Islamic financial markets in facilitating more effective and efficient intermediation of cross-border Islamic financial flows

v. Facilitating the establishment of professional ancillary service providers in Malaysia to provide a comprehensive range of services to meet the growing demand in the Islamic finance industry in areas such as wealth advisory, Shariah advisory, legal, taxation and auditing.

Recommendation 3.2.3

Enhance liquidity in Islamic financial markets to facilitate more effective and efficient intermediation of cross-border Islamic financial flows by developing a comprehensive range of innovative Islamic financial instruments that meets the requirements for international liquidity risk management, as well as by enhancing market infrastructure and practices.

This involves enhancing the dynamics of the Islamic money, foreign exchange and capital markets through the development of more innovative Shariah-compliant instruments, which includes:

i. Developing new products to facilitate Islamic repo transactions and unlock captive instruments, thereby re-invigorating activities in the wholesale money market (refer to the chapter Developing Deep and Dynamic Financial Markets).

ii. Expanding the range of globally-accepted Islamic hedging instruments to mitigate market risks and cross-border exposures.

iii. Supporting further the development of real estate investment trusts (REITs) and exchange traded funds (ETFs) for the Islamic capital market.

iv. Encouraging Malaysian issuers to offer foreign currency Islamic capital market investment products by providing attractive tax package for establishing and listing these products in Malaysia.
**Recommendation 3.2.4**

Increase market efficiency by facilitating the use of standard documents and agreements among financial market players. Such efforts include:

i. Promoting wide adoption of standardised product documentation and practices such as Wakalah Agreement and Commodity Murabahah Master Agreement through bilateral and multilateral agreements between local and foreign financial institutions.

ii. Developing a new set of facilitative standard agreements for financial market instruments based on specific underlying Shariah contracts, for example, Collateralised Murabahah Agreement, to enhance market linkages and efficient transactional activities between financial institutions and corporate sectors, domestically and internationally.

**Recommendation 3.2.5**

Promote active participation in issuance and trading of sukuk to create an efficient market with well-established information infrastructure and improved liquidity. This includes:

i. Facilitating regular sukuk issuance by the Government and government-linked companies that will improve the development of a benchmark yield curve as well as enlarge issuers’ base in the financial markets.

ii. Issuing equity participation notes by the Government and government-linked companies for project funding which can be subscribed by a wider range of investors.

iii. Promoting larger Islamic investment mandates by Government and government-linked companies, particularly in the foreign currency sukuk issued out of Malaysia.

**Recommendation 3.2.6**

Enhance the depth and vibrancy of the Islamic financial markets by providing a conducive regulatory and tax environment for onshore issuance of short-term and long-term tradable foreign currency instruments such as Negotiable Islamic Debt Certificates (NIDCs), Islamic Negotiable Instruments of Deposits (INIDs), Islamic Accepted Bills (IABs),...
medium-term notes and long-term sukuk by both residents and non-residents. Efforts in this direction include:

i. Recognising qualified foreign currency instruments as liquid assets and eligible collateral to obtain liquidity support from the Bank, subject to identified parameters.

ii. Continuously providing an enabling environment for the issuance of foreign currency Islamic securities.

**Recommendation 3.2.7**

Strengthen the framework for effective and efficient flow of cross-border Islamic financial activities in view of increased cooperation and coordination towards achieving greater market connectivity in Islamic finance globally.

This will include positioning Malaysia, including Labuan IBFC, as an international retakaful centre, with significant presence of takaful and retakaful operators supported by active takaful intermediaries to meet the domestic and global growth in takaful business. Efforts in this direction include:
i. Encouraging international players with strong capacity, rating and technical expertise to establish retakaful operations in Malaysia as well as attracting brokers with international linkages to serve the takaful sector.

ii. Encouraging greater involvement of takaful brokers in broadening the range of takaful product offerings and outreach by extending MIFC incentives to such takaful brokerage business activities.

iii. Promoting the use of takaful as a risk management tool in Islamic financial transactions, for instance in Islamic trade finance transactions and sukuk issuances.

Recommendation 3.2.8

Continue to enhance financial linkages between different jurisdictions by undertaking efforts to:

i. Foster and enhance strategic alliances with other jurisdictions through bilateral and multilateral agreements in business and developmental areas of Islamic finance in promoting greater breadth and depth of the Islamic finance industry at the international level.

ii. Encourage greater participation by Islamic banking institutions in offering trade finance facilities to expand cross-border Islamic financial transactions.

iii. Encourage Islamic financial institutions to increase international correspondent banking arrangements to facilitate capital flows in multi-currencies, and better support economic and financial integration in the region.

iv. Support and encourage a regional presence of strong Islamic financial institutions offering basic Islamic financial needs in retail financing and takaful.

v. Leverage on Labuan business structures and institutions to raise funds in multi-currencies in accordance with Shariah principles.

Towards enhancing dynamism of takaful interlinkages
Recommendation 3.2.9

Optimise the potential of existing Islamic financial market platforms to increase cross-border Islamic financial activities. The efforts include:

i. Supporting the International Islamic Liquidity Management Corporation (IILM) and the Bursa Suq Al-Sila’ as key infrastructure for liquidity management by providing facilitative business and operating environment to strengthen their value propositions in meeting the demand of global financial community.

ii. Enhancing the visibility of the Malaysian sukuk market amongst the international investors by promoting the inclusion of sukuk on established international indices.

iii. Supporting the development of market indices as a reference and for price quotations of the various classes of Islamic financial assets.

iv. Establishing links with commodity exchanges in other jurisdictions and explore the use of different types of commodities as underlying assets for new Islamic liquidity instruments.

v. Developing Malaysia as an international platform for the listing and trading of a full spectrum of Shariah-compliant asset classes in collaboration with other regulatory agencies.

Recommendation 3.2.10

Develop Malaysia as a reference centre for Islamic financial transactions. To enable this, Malaysia needs to build on the development of human capital in Islamic finance and the establishment of the Shariah, legal, regulatory and supervisory frameworks. This includes:

i. Establishing a single legislated body as the apex authority on Shariah matters for institutions offering Islamic financial services in Malaysia. This is aimed at paving the way to meet the developments in the international Islamic financial markets.

ii. Strengthening the International Shariah Research Academy for Islamic Finance (ISRA) to become a premier international research agency on Islamic finance and Shariah to promote greater harmonisation or mutual recognition of Shariah views on Islamic finance, to support innovation of Islamic financial products and services, and to conduct applied research in areas such as developing a reference benchmark pricing for Islamic financial transactions.

iii. Developing Shariah Parameters to serve as the reference point across jurisdictions for the development of Islamic financial products and services by clarifying the principles and basis of the underlying Shariah contracts for the various Islamic financial transactions.
Develop Malaysia as a reference centre for Islamic financial transactions and reaffirm the country’s position in Islamic finance education and training

iv. Gaining international recognition for the Association of Shariah Advisors (ASAS) as the body responsible for enhancing qualification and professionalism of Shariah advisors, locally and internationally.

v. Developing the Malaysian legal system to be recognised for international Islamic financial transactions by strengthening the legal framework to ensure effective enforceability of Islamic financial transactions and activities. This includes efforts to:

- Review the existing laws applicable to Islamic financial transactions by the recently established Law Harmonisation Committee (LHC) and, where necessary, amendments will be proposed to strengthen legal support to Islamic financial transactions.
- Enhance the capacity of the Kuala Lumpur Regional Centre for Arbitration (KLRCA) to effectively and efficiently arbitrate both domestic and international Islamic finance disputes.

vi. Strengthening the regulatory and supervisory framework for international Islamic finance by continuing to have an active role in supporting the efforts undertaken by international Islamic finance organisations such as the Islamic Financial Services Board (IFSB), IILM, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), International Islamic Financial Market (IIFM) and the Islamic Development Bank (IDB) in the development of Islamic finance.

**Recommendation 3.2.11**

Enhance Islamic finance knowledge propositions to further strengthen Malaysia’s position in Islamic finance education and training. This will also be supported by a comprehensive talent development programme catering to the various segments to meet the growing demand for Islamic finance professionals that are critical to research and innovation efforts especially in the areas of Shariah and product development. The initiatives include:

i. Promoting standards and the accreditation of Islamic finance programmes by the Islamic finance industry (refer to the chapter Talent Development to Support a More Dynamic Financial Sector).
ii. Supporting the introduction of structured training programmes for relevant stakeholders, for example, the judges and lawyers, through the industry’s collaborative efforts with the relevant authorities in facilitating understanding of the specificities of Islamic finance.

iii. Introducing dedicated training programmes to prepare Shariah graduates for careers in the Islamic finance industry. This will be pursued as a joint effort between the industry, training institutions and regulators.

Recommendation 3.2.12

Promote greater global engagement and alliances in the development of the Islamic finance industry to increase Malaysia’s business connection and collaboration with other financial centres towards enhancing our financial and economic linkages with other parts of the world. This includes efforts to:

i. Establish information flows in Islamic finance to build greater regional and global connectivity by continuing to collaborate with the private sectors in organising meetings and
conferences, intellectual discourse and debates to create understanding and awareness on Islamic finance and other opportunities to support seamless cross-border information flows.

ii. Encourage public-private sector collaboration and intensify networking between Malaysia and other financial centres for business opportunity matching.

The recommendations collectively promote enhancing varying value propositions of Islamic finance and Malaysia as an international Islamic financial centre. In the immediate to medium term, the implementation of the recommendations will focus on enhancing the capacity of financial institutions, improving market liquidity and connectivity, thus stimulating cross-border market activities. Incumbent Islamic financial institutions are expected to have greater business focus and increased financial resilience to bring the industry to a new level and to meet new competition. In the medium to longer term, issuance of specialised licences will be introduced to allow new entrants into the Islamic finance industry to address gaps in certain Islamic banking and takaful business segments. Ongoing efforts throughout the Blueprint period will be accorded towards developing thought leadership in Shariah matters and in talent development for the industry to drive the internationalisation agenda and thus strengthen the international financial and economic linkages, in particular among the emerging economies and with the traditional international financial centres.