

Creating Effective and Efficient Regulatory Framework

29 March 2007

Global Islamic Finance Forum, Kuala Lumpur

By

Dato' Azizan Abdul Rahman
Director General,

Labuan Offshore Financial Services Authority





- ❖ Introduction
- ❖ Development of Islamic Capital Market
- ❖ The Need for an Effective and Efficient Regulatory Framework

Labuan International Offshore Financial Centre (IOFC)

- ❖ Conclusion

Introduction





- ❖ Impressive growth of Islamic finance worldwide – average growth of 15% per annum given rise to need of products for the management of balance sheet liquidity

- ❖ Islamic capital market provides :
 - stable and viable source of long term funds
 - Greater diversification of risks
 - Contribute to overall stability of Islamic financial system
 - Meets requirements of Shariah compliant investors and investors with ethical investment philosophies



- ❖ Robust and efficient Islamic capital market need concerted effort of regulators, players and Shariah scholars
- ❖ Regulator's role in creating effective and efficient regulatory framework towards enabling and conducive business environment
- ❖ Need for global integration of Islamic capital market

Development of Islamic Capital Market



Development of Islamic Capital Market



- ❖ The need to address liquidity management
- ❖ Initial years - deposit mobilisation and trade financing that were short term in nature
- ❖ The need for long term financial instruments induced financial engineering in capital market
- ❖ Increase demand of Shariah compliant instruments – Islamic funds, Islamic stock broking services and Sukuk

Development of Islamic Capital Market



- ❖ Impressive growth of Sukuk with size of USD30 billion within five years
- ❖ Malaysia launched the world first sovereign sukuk
- ❖ Malaysia Islamic bond comprised 71% of new bond offerings worth RM43.3 billion with strong growth of 22.9%

The Need for an Effective and Efficient Regulatory Framework



The Need for an Effective and Efficient Regulatory Framework



- ❖ Elements of effective and efficient regulatory framework
 - Liquid and efficient market
 - Transparent and fair information
 - Ethical and sound practices
- ❖ Regulation should build investor confidence and enhance competition in the environment of integrity and fairness
- ❖ An optimal / efficient level regulation boost investors demands for Islamic securities
- ❖ Regulation should not be rigid that strangulates innovation and creativity

The Need for an Effective and Efficient Regulatory Framework



- ❖ Information efficiency is also important
- ❖ Transparency and disclosure requirement must be in place
- ❖ Effective risk management system
- ❖ Two-tier approach to regulate provision of Islamic financial products and services
- ❖ Good corporate governance practices

The Need for an Effective and Efficient Regulatory Framework

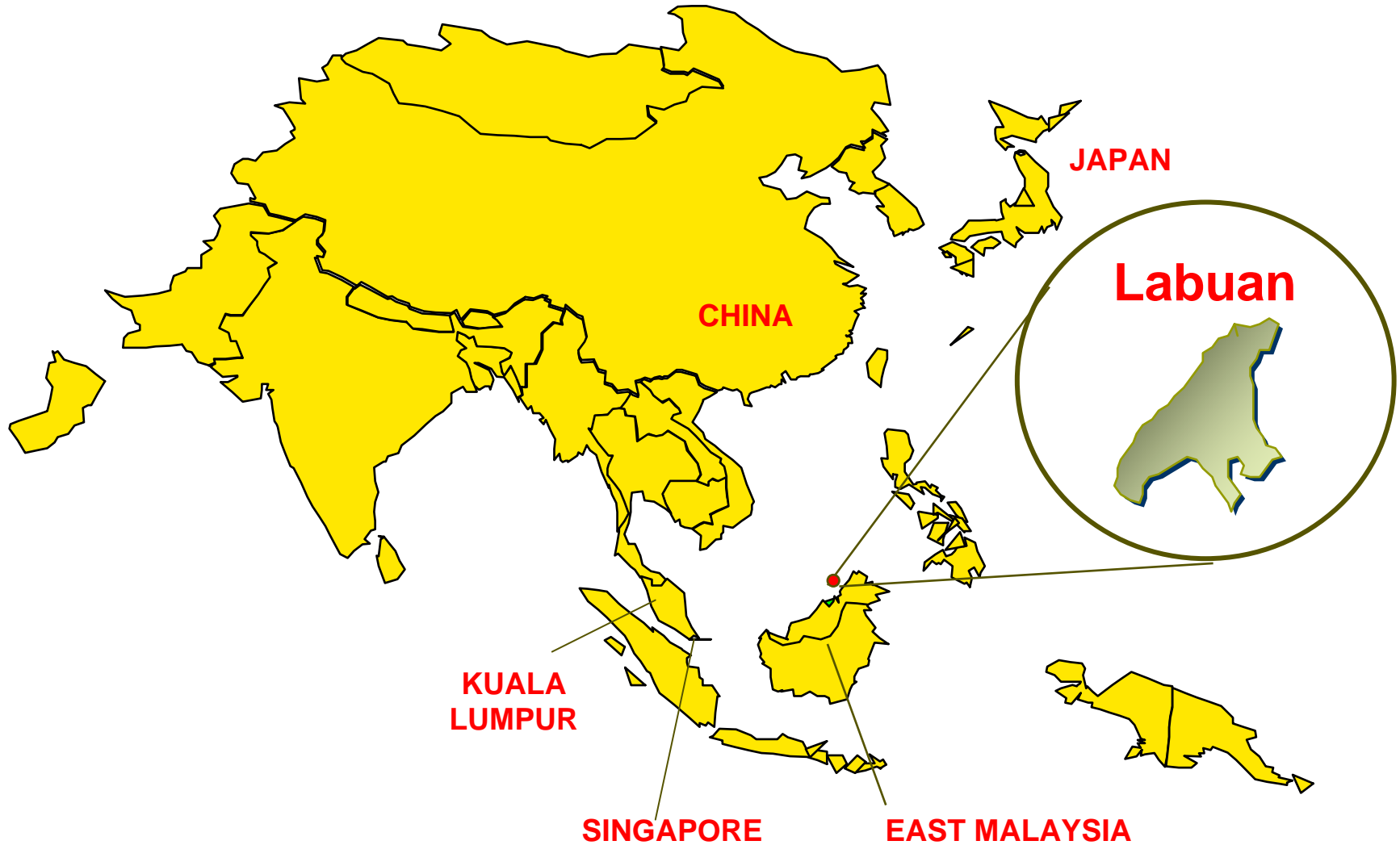


- ❖ Participation of conventional players should be encouraged
- ❖ Appropriate balance between investors confidence and business interests
- ❖ Adequate financial infrastructure for players to conduct business efficiently

Labuan IOFC



Labuan: Strategically located in the heart of Asia Pacific Market...



Business Infrastructure....





- ❖ Development of Labuan IOFC as offshore centre started in early years with concentration on offshore banking
- ❖ Developing market with intermediaries and service providers induced more comprehensive market to include trust, insurance businesses, investment banking, capital market activities, investment funds, securities listings and trading both conventional and Islamic finance
- ❖ Leveraging on location, physical infrastructure and preferential tax regime
- ❖ Physical infrastructure for capital market in Labuan IOFC - establishment of Labuan International Financial Exchange (LFX)
- ❖ Shariah compliance and international involvement to promote Islamic capital market and ensure adoption of international best practices

Labuan IOFC: Other Services and Products



Offshore Banking

- Commercial Banking
 - Loans
 - Deposits
 - Leasing
 - Custodian
 - Guarantee
- Investment Banking
- Private Banking

Offshore Insurance

- Life
- General
- Brokers
- Managers
- Underwriters
- Captives
- Re-Insurers

Offshore Trust

- Trustee
- Administrator
- Secretarial
 - Resident Secretary
 - Resident Director
- Company Management

Capital Market

- Labuan International Financial Exchange (LFX)
 - Listing
 - Trading
- Fund Management
 - Custodian
 - Fund Administrator
- Mutual Funds
 - Private Funds
 - Public Funds

Offshore Companies

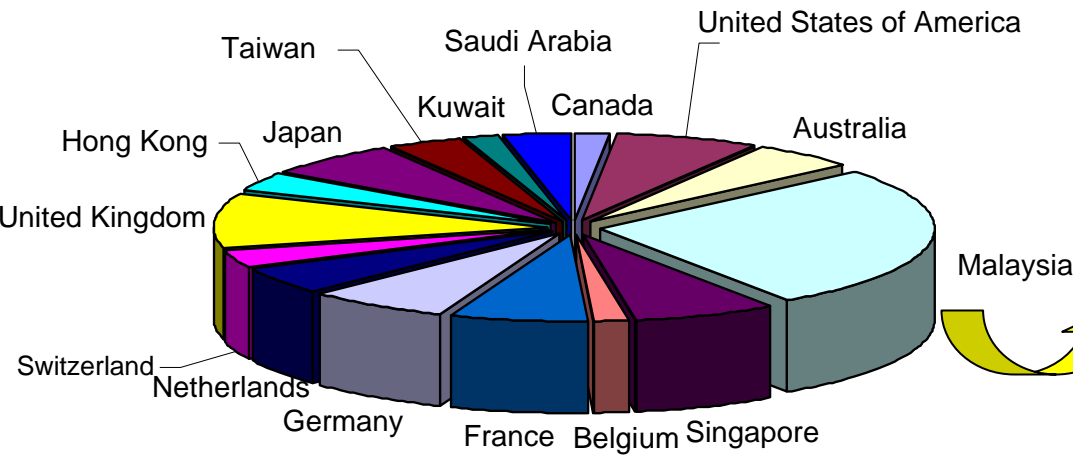
- Registration of Companies
 - Foreign incorporated
 - Locally incorporated
- Limited by Shares
- Limited by Guarantee
- Offshore Limited Partnership

..... and Islamic Financial Services Opportunities

Labuan IOFC: 57 Offshore Banks & 123 Offshore Insurance and Insurance Related Companies

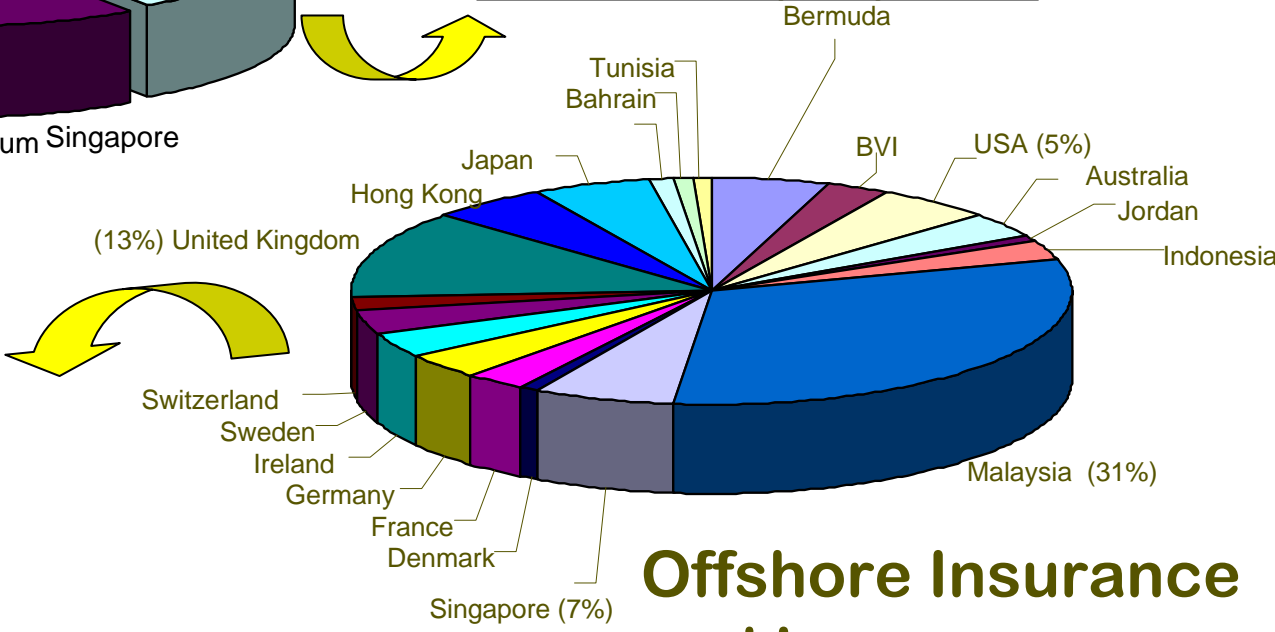


Offshore Banks



Banks
Malaysia - 15 (27%)
United Kingdom – 5 (9%)
Singapore – 4 (7%)
USA – 4 (7%)
France – 4 (7%)
Japan – 3 (5.6%)
Nederland – 3 (5.6%)

Insurance
Malaysia - 35 (31%)
United Kingdom – 15 (13%)
Singapore – 8 (7%)
USA – 6 (5%)
Japan – 6 (5%)
Bermuda – 6 (5%)
Hong Kong – 5 (4%)
Australia – 5 (4%)

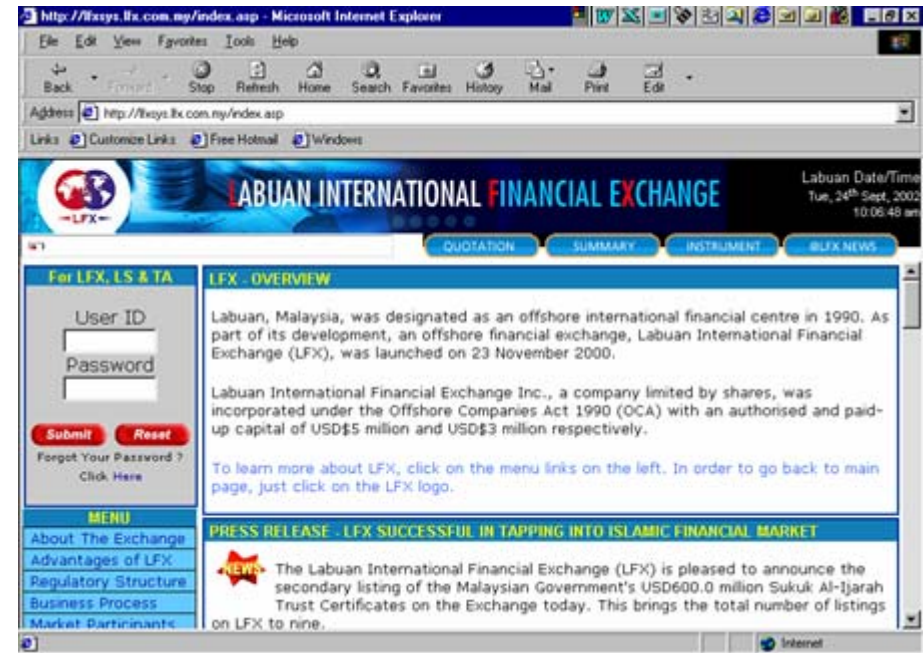


Offshore Insurance and Insurance Related Companies

Labuan International Financial Exchange (LFX)



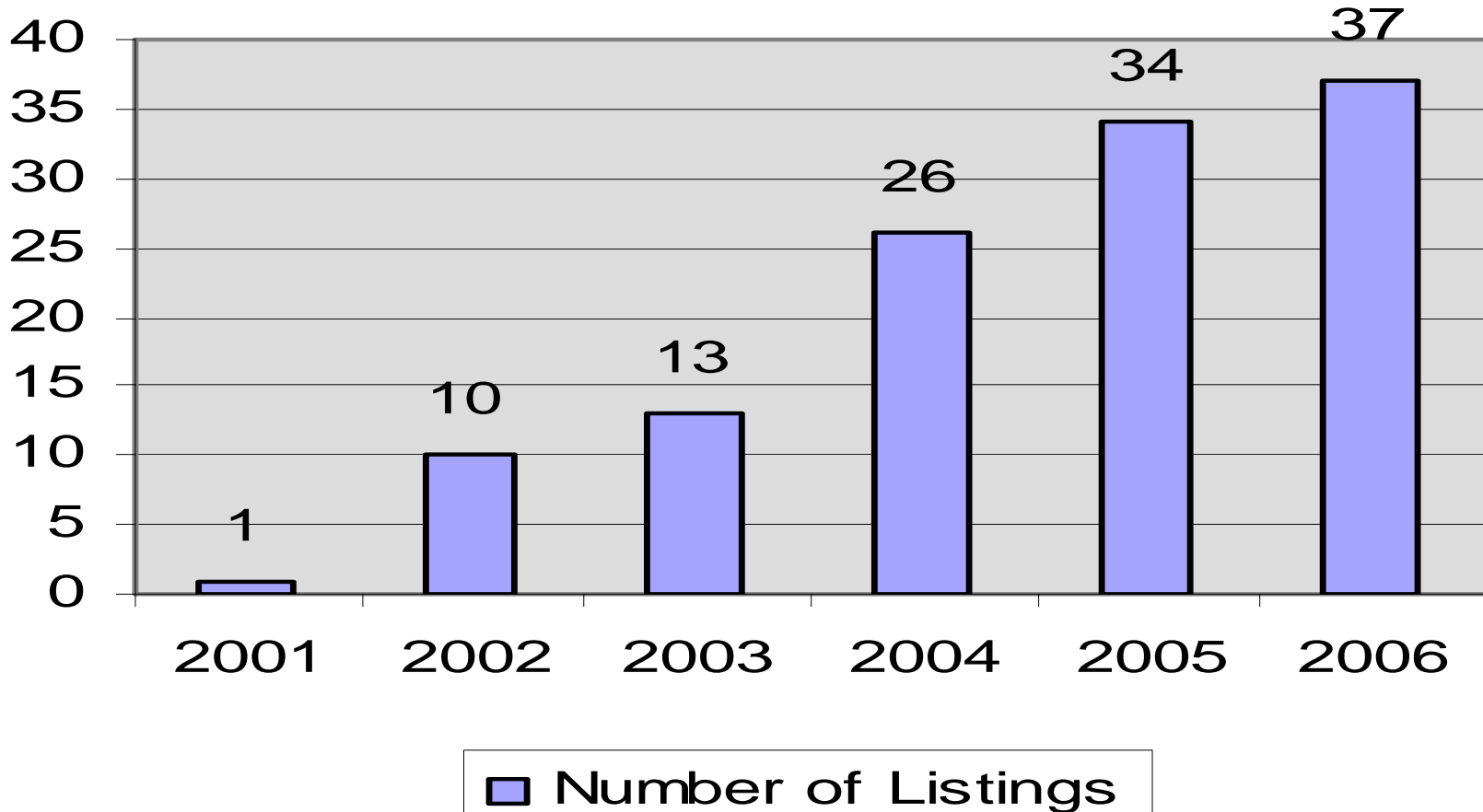
- ❖ Avenue for fund raising from the Asia-Pacific
- ❖ Facilitates multi-currency listings - Syariah compliant and conventional
- ❖ Simple and liberal rules for listing
 - Listing process: 14 market days
- ❖ Share the same time-zone with other countries within the Asia-Pacific region
- ❖ No exchange controls or stamp duties
- ❖ Easy accessibility via Internet



Labuan IOFC: The Growth of LFX



Number of Listings (as at December 2006)





- ❖ Shariah convergence facilitates higher level of issuance of globally accepted Islamic capital market products
- ❖ Standardised practices among market players reduce transaction costs and risks
- ❖ IIFM to promote cross-border transactions of Islamic financial instruments
- ❖ MIFC initiative

MIFC Initiative



MIFC Incentives for Labuan IOFC Financial Institutions



- ❖ Labuan offshore Islamic banks and the Islamic divisions of offshore banks as well as offshore takaful operators have been given greater flexibility :
 - to open operation offices anywhere in Malaysia; and
 - no limitation of staffing

- ❖ Enjoy the preferential corporate tax rate accorded in Labuan and can choose either to:
 - pay corporate tax at a rate of 3% of the net audited profit; or
 - pay a fixed sum of RM20,000; and
 - they are also granted an income tax rebate equivalent to the amount of Business Zakat paid, subject to a maximum of 3% of the net profit or RM20,000.

- ❖ The preferential corporate rate is perpetual and applicable as long as the offshore financial institutions stay in operation

- ❖ Enjoy other tax exemptions

Labuan IOFC: Other Tax Incentives – Corporations and Non-Citizens



Corporations

- ❖ Offshore trading activities - 3% on chargeable profit, or flat rate of RM20,000
- ❖ Offshore non-trading activities: Zero tax
- ❖ Tax Rebate for Business Zakat
- ❖ Exemption:
 - Dividend received from OFI by its shareholders (including Msian domestic co.) that are paid, credited or distributed out of income derived from offshore business activity)
 - Royalties received from OFI (by resident/non-resident)
 - Technical or management fees received by OFI by a non-resident or other OFI
 - Stamp duties
 - Lease rental paid to Non-residents from the use of immovable property by OFI
 - Concluded Investment Guarantee Agreements (IGA) with more than 70 countries –

Non-Citizens Individuals

- ❖ 100% tax exemption on Director's fees for Non-citizen Director of Offshore Company
- ❖ 50% exemption of the gross employment income of non-citizen in managerial capacity
- ❖ 50% exemption for Non-Citizen Trust Officers
- ❖ 50% exemption on Labuan and housing allowances of Msian citizens working in OFI until 2010
- ❖ 65% exemption on Statutory Income of Services Providers



- ❖ Consultative approach with market expertise to enhance product innovation and meet Shariah requirements :
 - Establishment of Shariah Advisory Council; and
 - Establishment of Task Force on Islamic Finance

Conclusion





- ❖ Effective regulatory framework should ensure fair, efficient and transparent operation while protecting investors
- ❖ Regulations should inspire investor confidence in the market, confidence on on the Shariah-compliant process and confidence that Islamic product are truly Shariah compliant
- ❖ Effective and efficient regulatory framework provides enabling environment to enhance development of Islamic financial services industry



Some Natural Serene Beauties of the Island... Thank you.

