
Creating a Vibrant and Conducive Environment for Investors and Issuers

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by

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Why do issuers tap the debt capital markets?

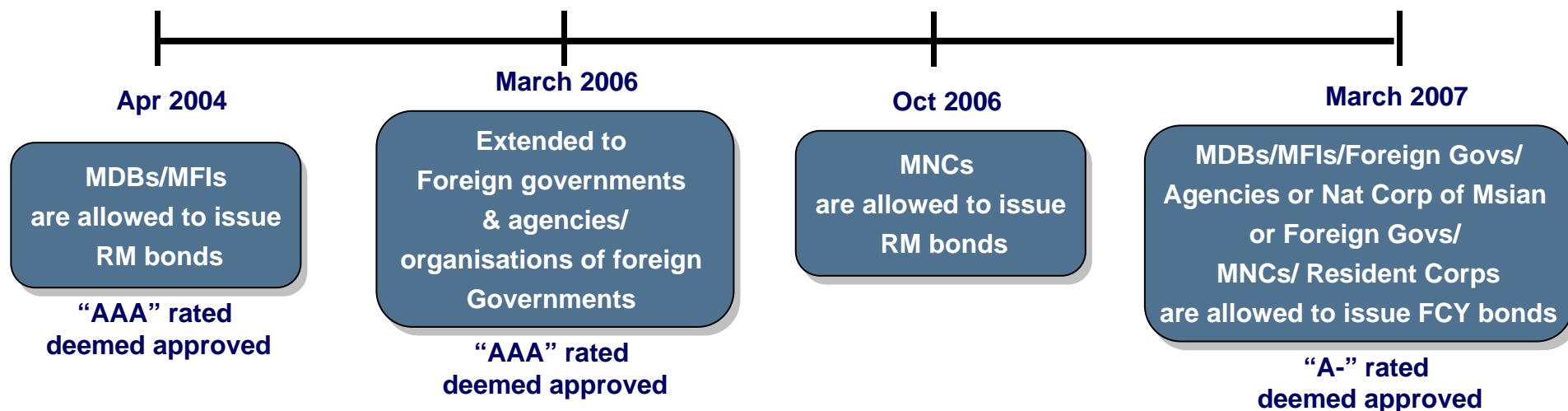
Issuers are motivated to come to the debt capital markets for a range of reasons

- Issuers tap the debt capital markets for one or more of the following reasons:
 - To access new source of funding
 - To achieve tighter pricing
 - To get longer tenors
 - As part of a strategic financing plan
 - To put in place a long-term financing programme
 - To build international profile for the issuer
 - To establish a benchmark pricing
- Issuers tap the Islamic debt capital markets
 - To access both conventional and Islamic investors
 - To achieve even tighter pricing (in some jurisdictions)
 - To comply with Islamic law (for some issuers)
 - Also the reasons set out in the first part above

Is Malaysia an attractive source of funding?

The following incentives have been put in place to deepen the debt capital markets

- Certain Foreign issuers are allowed to tap the RM debt market:



- ◆ Rating is by international ratings agencies
- ◆ An entity is considered an agency or organisation of a foreign government if it either:
 - Has an explicit guarantee from its government; or
 - Is wholly or majority-owned by its government, and has a local currency rating of no more than one notch below the rating of its government assigned by an international credit rating agency. (In the absence of a local currency rating, a foreign currency rating at least as high as the sovereign rating is acceptable.)

Note:

MDBs – Multilateral Development Banks

MFIs – Multilateral Financial Institutions

MNCs – Multinational Corporations

PN – Practice Note (issued by SC)

Can Malaysia do better?

Malaysia will be more attractive if the following steps are taken

- Simplify the process – “one-stop” approving body. Currently issuers need to
 - Liaise with MOF
 - Submit to the Securities Commission – ‘deemed approved’ if AAA and complete submission of information
 - Apply to Bank Negara Malaysia
 - The issuance process takes 11-12 weeks
- Deepen the swap market
 - Foreign Issuers are allowed to swap the RM proceeds into foreign currencies (like USD)
 - Ability to swap large RM issues into USD (for example) is limited due to
 - Malaysia’s interest rate swap market is still in a developing stage.
 - IRS tenures range from 1year to 10years, with liquidity concentrated from 5 years and below.
 - Typical daily interbank volume in the market ranges from RM200-500 million
- Why not “deemed approved” for the following A- (international ratings) issuers to tap the RM debt market
 - MDBs
 - MFIs
 - Foreign Governments
 - Agencies or National Corporation of Malaysian or Foreign Governments
 - MNCs
 - Resident Corporations

Is Malaysia attractive for the global investors?

Various incentives, including the MIFC incentives, have been introduced to lure the investors

- MIFC incentives should attract investors to Malaysia
 - (i) Establishment of International Islamic Bank**
 - qualified foreign and Malaysian financial institution can conduct Islamic banking business in international currencies
 - Must be licensed under the Islamic Banking Act 1983 as International Islamic Bank (IIB)
 - IIB is a resident for the purpose of foreign exchange administration policies
 - IIB may be formed as an incorporated entity or a branch and must have a minimum paid-up capital or net working fund of RM10 million respectively.
 - IIB is eligible for full tax exemption for ten years effective from 2007
 - (ii) Establishment of International Takaful Operator**
 - Qualified foreign and Malaysian financial institution can conduct takaful business in international currencies
 - Must be licensed under the Takaful Act 1984 as International Takaful Operator (ITO)
 - Allowed to conduct non-ringgit composite (general and family) takaful business and re-takaful (Islamic reinsurance)
 - ITO is a resident for the purpose of foreign exchange administration policies
 - ITO may be formed as an incorporated entity or a branch and must have a minimum paid-up capital or net working fund of RM10 million respectively.
 - ITO is eligible for full tax exemption for ten years effective 2007
 - (iii) Establishment of Fund Managers**
 - All existing and new fund managers are given full income tax exemption on management fees for ten years for managing funds of foreign investors based on Shariah principles

Is Malaysia attractive for the global investors?

Various incentives, including the MIFC incentives, have been introduced to lure the investors

- RM debt capital market instruments issued by MDB, MFIs and other eligible issuers are:
 - 0% risk weight under the Risk Weighted Capital Ratio framework;
 - Class-1 liquefiable asset status with 6% yield slippage under the liquidity framework; and
 - Low risk asset status by insurance companies.
- Investors who buy FCY debt capital market instruments issued by MDB, MFIs and other eligible issuers are:
 - Exempted from income tax on the income received (residents)
 - Exempted from withholding tax (non-residents)
- Certain resident Fund Managers can now invest up to 50% of their NAV in FCY assets
- These incentives make the debt capital market instruments very attractive to investors

Can Malaysia do better?

Malaysia will be more attractive if the following steps are taken

- The MIFC incentives are the right steps towards achieving the MIFC status BUT more work is required.
- Need to create Deal-flows like infrastructure projects, real estate developments, large acquisitions
 - Initiatives: Ninth Malaysia Plan, SJER (Khazanah Nasional),
 - Northern Corridor Development,
 - Eastern Corridor Development
- Deal-flows will attract investors, bankers and other professionals to Malaysia
- Efficient Regulations & Legal Environment will ensure the growth and sustainability of the Deal-Flows