



# External Relations

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In 2005, Bank Negara Malaysia continued to strengthen its external relations, both at the international and regional levels to foster closer financial co-operation. At the regional level, while economic surveillance processes remained an integral element of the international agenda, significant steps were taken to enhance economic and financial co-operation. These efforts were focused at strengthening institutional and infrastructure development, and capacity building in Islamic financial services, bond market and financing arrangements. Initiatives were also taken to enhance bilateral relations and combating of money laundering and terrorism financing. Enhancing regional co-operation in these areas form the foundations for realising the potential that greater regional economic and financial integration would bring to the region. At the multilateral front, calls were made for the International Monetary Fund (IMF) and the World Bank (WB) to address the leadership issue and governance structure, and the need for quota review that adequately reflects the economic contribution and voice of the Asian countries in the international financial system.

## **Economic Surveillance**

Bank Negara Malaysia participated actively in the economic surveillance processes of various multilateral and regional fora during the year. At the multilateral fora, surveillance issues were deliberated at the meetings of the IMF, WB and the Bank for International Settlements (BIS). Policy deliberations were focused on the role of respective regions in ensuring orderly resolution of global imbalances and in managing the potential risks of high oil prices. It was recognised that all member countries were collectively responsible to ensure a stable and more balanced global economic growth. The IMF and the WB would play crucial roles in enhancing the coherence and consistency of the international monetary, financial, and trading systems, and in fostering international co-operation to address economic challenges.

At the regional level, the Bank also participated in various initiatives to develop effective regional surveillance capabilities that complemented those undertaken by the international financial institutions. Economic surveillance undertaken at the regional level included those covered by the Executives' Meeting of the East Asia-Pacific Central Banks (EMEAP), South-East Asian Central Banks (SEACEN), the Association of Southeast Asian Nations (ASEAN), ASEAN plus the People's Republic of China (PR China), Japan and Korea

(ASEAN+3), and the Asia-Pacific Economic Co-operation (APEC). Among these initiatives included the enhancement and integration of the ASEAN+3 economic surveillance mechanism into the Chiang Mai Initiative (CMI) framework. This would enable early detection of irregularities and swift remedial policy actions, and to facilitate the activation of bilateral swap arrangements (BSAs) under the CMI, while at the same time avoiding the emergence of any moral hazard issues.

Another area of priority is the monitoring of cross-border flows. Through the SEACEN Expert Group (SEG) on Capital Flows, the Bank participated in the exchange of information on capital flows among the SEACEN members. During the Fifth Meeting of SEG on Capital Flows that was held in March 2005 in Kuala Lumpur, a discussion was held on the development of a regional early warning system model for capital flow reversals, with the aim of adopting the model as an additional tool for data analysis work by the SEACEN Centre. The establishment of an early warning system in 2006 would further augment the monitoring activities, which would lay a key step forward in better assessment of regional capital flows developments.

Through the EMEAP and the SEACEN fora, the Bank continued its active participation to discuss economic surveillance issues, initiatives for capacity building and training of central bankers. High on the agenda was the framework for financial stability, in light of the volatile and large capital flows, financial liberalisation and increasing integration with global markets. Another priority area was the development of the financial sector, notably the implementation and impact of the new Basel II capital adequacy framework. This needed to be reinforced with the strengthening of the capacities of both the central banks and commercial banks in order to effectively implement Basel II. In light of this, the SEACEN Centre would have an important role in providing training to facilitate the implementation of Basel II.

## **Multilateral Relations**

During the year, Bank Negara Malaysia continued to press forward the need for the IMF and the WB to reflect their representation of all member countries. Among the issues reiterated by Malaysia at the September 2005 IMF/WB Annual Meetings included the need for greater voice and participation of emerging and developing countries at the IMF and the WB, commensurate with their relative strength in the

changing global economy. Malaysia highlighted that the emphasis of the IMF and the WB to focus on reforms at the country and regional levels must also be accompanied by reforms on the international front. Consequently, the ability to provide leadership adequately, balancing the interest of the developed and developing countries on the global stage would determine the effectiveness and relevance of the international financial institutions. At the same time, the IMF surveillance efforts should also include initiatives that will enhance the institutional capacity of developing economies in managing risks and vulnerabilities while sustaining their own capacity to support growth and development. The importance for enhancement of development partnership and financing to achieve the Millennium Development Goals (MDGs) was further emphasised.

Toward this end, Malaysia, as a contributor to the IMF's Poverty Reduction and Growth Facility Trust, supported the proposals needed to launch the Multilateral Debt Relief Initiative (MDRI) and the Exogenous Shocks Facility of the IMF. The objective of the MDRI is to assist in debt relief for qualified low-income members of the IMF thereby assisting them in reaching the MDGs, while the Exogenous Shocks Facility would allow the IMF to provide timely financial assistance to low-income members that have been adversely affected by exogenous shocks.

Malaysia continues to maintain its net creditor status in the IMF. During the year, Malaysia continued to be included in the IMF's Financial Transaction Plan (FTP) for the quarterly period up to February 2006. Under the FTP, selected IMF members (47 to date) with strong balance of payments and reserve positions may be called upon to provide foreign exchange resources to support the IMF's financial operations. Malaysia resumed the IMF's FTP status since September 2002, after a period from 1997.

In November, the IMF's Article IV Mission visited Malaysia to discuss and assess Malaysia's macroeconomic performance and policy issues for 2005 and outlook for 2006. Their assessment was that Malaysia's resilience to shocks has continued to improve. Reference was made to the pragmatic approach adopted by the Malaysian authorities in macroeconomic policymaking and the steady progress in the implementation of structural reforms.

During the year, the Bank also participated actively in meetings organised by the BIS. Key issues discussed at the meetings included the design and operation of monetary policy decision-making, central bank co-

operation in the Asia-Pacific region, supervision of financial activities, issues relating to the global imbalances and sharp increases in oil prices, and implications of household indebtedness. During the year, the Bank purchased 220 shares out of 35,933 additional shares offered for sale in January 2005 by the BIS to existing shareholders. With the subscription, the Bank's shareholding in the BIS increased to 3,220 shares to account for 0.6% of the increased BIS capital.

Bank Negara Malaysia also progressed forward its collaboration with the Islamic Development Bank (IDB) under the ambit of the Memorandum of Understanding (MoU) signed between Malaysia and IDB in June 2004. Two High-Level Meetings were held during the year to deliberate on areas of co-operation under the MoU. The areas of co-operation included strengthening intra-trade and development of Information Communication Technology (ICT) among the Organisation of Islamic Conference (OIC) member countries. New areas of co-operation continued to be explored by the various working groups and task forces established under the ambit of the MoU. Significant progress have been achieved, with the signing of a Reinsurance Facility Agreement in June 2005 between the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) and Malaysia Export Credit Insurance Berhad (MECIB), aimed at promoting and facilitating more trade and investment among OIC member countries. In addition, the Malaysian Industrial Development Authority (MIDA) signed an MoU with the ICIEC in September 2005 to cooperate in developing programmes for promoting investment opportunities in OIC member countries.

Bank Negara Malaysia is also a member of the IDB 1440H Vision Commission. The role of the Commission is to transform the IDB into a premier and proactive development bank with wide knowledge and competencies in all its core areas, and to be responsive to the diverse needs of people in the member and non-member countries. The Commission has scheduled to launch the IDB 1440H Vision document in Kuala Lumpur on 23 March 2006.

### **Financial Services Negotiations**

#### ***World Trade Organisation***

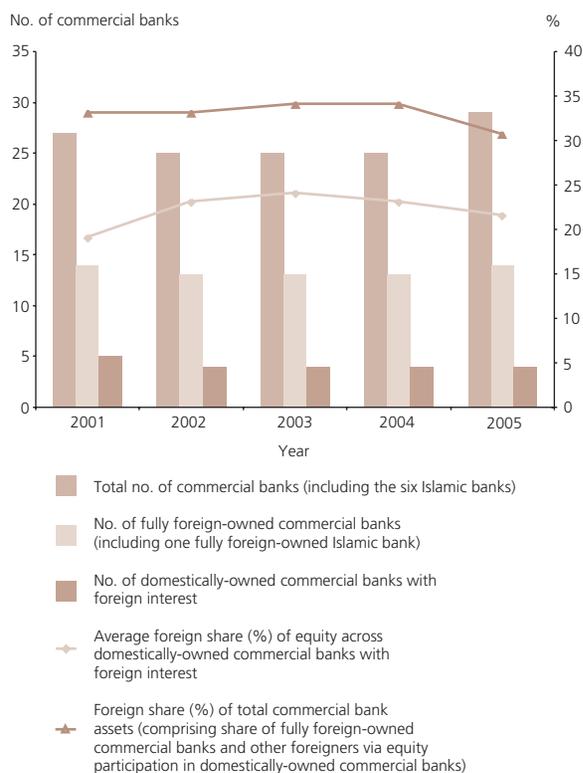
Bank Negara Malaysia played an active role in the services negotiations at the World Trade Organisation (WTO) and is the lead agency undertaking negotiations on trade in financial services. At the Sixth WTO Ministerial Conference (6th MC) held on 13-18 December 2005 in Hong Kong, it declared the

establishment of procedures to conclude negotiations under the Doha Development Agenda in 2006. Among others, these procedures covered the details to complete negotiations in agriculture, industrial goods and services. This included securing a final date of 2013 for the elimination of all export subsidies in agriculture, with flexibility for longer timeframe for developing countries, and providing duty- and quota-free access for goods exported by 32 least-developed countries.

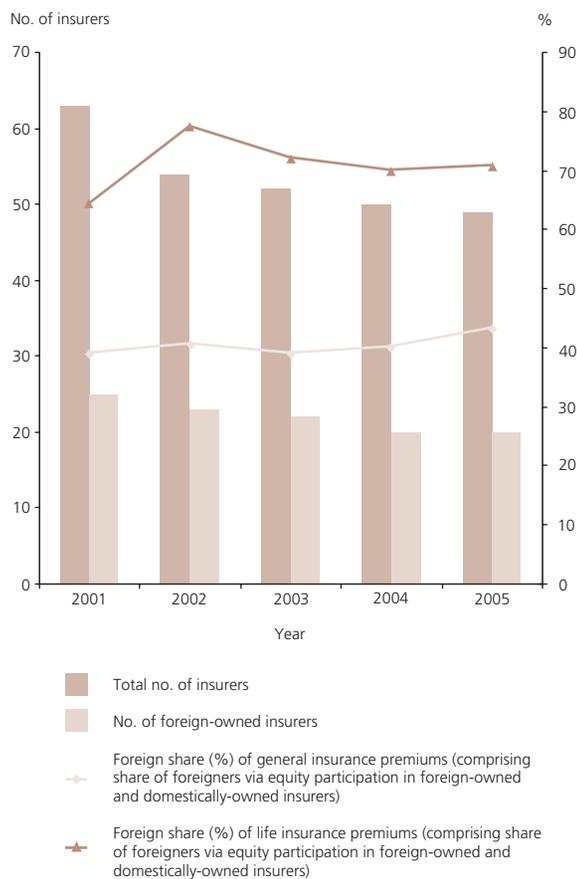
On services negotiations, including financial services, the 6th MC agreed that WTO member countries would submit their final commitments on further market opening by 31 October 2006. It was agreed that member countries would strive to achieve a progressively higher level of liberalisation of trade in services, with appropriate flexibility for developing countries, taking into account factors including the size of their respective economies; level of readiness for liberalisation; and the need to balance it with their domestic considerations.

The procedures and timelines agreed to by the 6th MC were expected to intensify negotiations to further liberalise trade in services at the WTO. This was in

**Graph 11.1**  
**Foreign Participation in the Malaysian Commercial Banking Sector**



**Graph 11.2**  
**Foreign Participation in the Malaysian Insurance Industry**



keeping with the WTO's objective to ensure that trade flows continued to take place smoothly, predictably and as freely as possible. In line with the commitment to gradually liberalise the financial services sector, Bank Negara Malaysia undertook measures<sup>1</sup> to accord greater flexibility for locally-incorporated foreign banks to establish additional branches, and allow higher foreign shareholdings in takaful operators, investment banks and Islamic banks. These measures are consistent with the overall objective of the Financial Sector Masterplan (FSMP), which is to create an effective, efficient and dynamic financial sector that supports the diversified requirements of the economy.

### Regional and Bilateral Free Trade Agreements

The third round of financial services negotiations under the ASEAN Framework Agreement on Services (AFAS) concluded with the signing of the 'Protocol to Implement

<sup>1</sup> Further details on these measures can be referred to in Chapter 5: The Banking System and Chapter 6: The Islamic Financial System.

the Third Package of Commitments on Financial Services Liberalisation' by the ASEAN Finance Ministers at their meeting on 6 April 2005 in Vientiane, Laos. The Protocol put into effect the liberalisation commitments made by ASEAN Member Countries under the third round of negotiations, which started in 2002. The commitments went beyond those made by the Member Countries at the WTO under the General Agreement on Trade in Services (GATS), also known as 'GATS-plus commitments'. Malaysia undertook a GATS-plus commitment in the area of investment advisory services. A fourth round of negotiations on financial services was also launched by the ASEAN Finance Ministers at their meeting on 6 April 2005. The round is expected to be concluded within three years.

Bank Negara Malaysia also participated in ongoing services negotiations, among others, under the ASEAN-China Free Trade Agreement (FTA), the Malaysia-Australia FTA and the Malaysia-New Zealand FTA. Malaysia's first bilateral FTA was signed with Japan on 13 December 2005, officially known as the 'Japan – Malaysia Economic Partnership Agreement'. The FTA was comprehensive in nature, encompassing measures on liberalisation, co-operation and trade facilitation in the areas of goods, services and investment. Malaysia and Japan agreed to establish a 'Working Group on Financial Services' under the FTA. The Working Group will provide a forum for the financial regulatory authorities in both countries to exchange views on issues of mutual interest related to financial services.

### Islamic Banking

As a founding member and the host for the Islamic Financial Services Board (IFSB), Bank Negara Malaysia continued to participate actively in the IFSB as a member of the IFSB Council and its Technical Committee. During the year, the IFSB issued two prudential standards for Islamic financial institutions, namely the Guiding Principles of Risk Management and Capital Adequacy Standard. The Guiding Principles of Risk Management complemented the current risk management principles issued by the Basel Committee on Banking Supervision and other international standard setting bodies, by providing a set of guidelines for establishing and implementing effective risk management practices in the Islamic financial institutions. The Capital Adequacy Standard addressed the specific approaches in identifying and measuring risk of Shariah compliant products and services offered by the Islamic financial institutions that were not specifically addressed by Basel II. The two standards are to be implemented with effect from 2007.

In 2005, the Council of the IFSB approved the exposure draft on the Corporate Governance Standard and initiated the preparation of two new standards on

transparency and market discipline, and the supervisory review process. In addition, the IFSB launched a project to develop a prudential database of Islamic financial services statistics and a study on financial instruments for monetary management, and facilitating and regulating Islamic money market.

During the year, the IFSB admitted the Monetary Authority of Singapore as a full member and the Banque Du Liban as an associate member. As at end-2005, the total number of IFSB membership increased to 84 members (16 full members, seven associate members and 61 observer members) from 65 members as at end-2004.

### Combating Money Laundering and Terrorism Financing

In recent years, the international community has made much progress in establishing mechanisms for an extensive range of international co-operation in combating money laundering and terrorism financing. Countries around the world responded to the United Nations Convention on the Suppression of the Financing of Terrorism and the nine special recommendations on terrorist financing issued by the Financial Action Task Force on Money Laundering (FATF). All countries welcomed the positive incentives for the implementation of FATF's recommendations and AML/CFT<sup>2</sup> systems for the benefit of their societies, businesses and financial sectors.

### ASEAN

Malaysia actively participated in the yearly ASEAN Senior Officials Meeting on Transnational Crime (SOMTC). At the 5th ASEAN SOMTC & Consultations with Australia, China, Japan, India, Korea and the United States, ASEAN member countries agreed to prioritise on four areas of transnational crime, namely terrorism, illicit drug trafficking, trafficking in persons and money laundering. As the "lead shepherd" for money laundering, Malaysia offered to host study visits to the Financial Intelligence Unit (FIU) in Bank Negara Malaysia and the Basic and Advanced Net Worth Analysis Workshops for ASEAN members under the ASEAN+3 initiatives.

### Asia/Pacific Group on Money Laundering

Malaysia has been a member of the Asia/Pacific Group on Money Laundering (APG) since 2000. At the Eighth APG Annual Meeting in July 2005, Malaysia was nominated as the representative for the South East Asia region in the APG Steering Group for the period of one year from July 2005. As a member of the APG

<sup>2</sup> 'AML/CFT' refers to 'Anti-Money Laundering and Counter Financing of Terrorism'.

Steering Group, Malaysia has participated in the deliberations on the structure, functioning and support for the APG. Malaysia supported Myanmar's membership in the APG as this was in line with the APG's mandate as a platform for practical and technical co-operation that was to be free from political considerations.

Malaysia also participated in the APG programme to review its domestic non-profit organisations (NPO) sector and associated regulations. The NPO review was essential to identify weaknesses that increase the potential for NPOs to be exploited as money laundering conduits. The review would enable risk-based measures to be formulated and established to deter and detect any exploitation of the NPOs as conduits for illegal activities. Bank Negara Malaysia is conducting this review in collaboration with the Registrar of Societies and the Companies Commission of Malaysia.

Malaysia supported the APG's application to the FATF for associate membership as this would enhance the opportunity for practical co-operation with the FATF on areas such as research on money laundering trends, technical assistance, and implementation guidance at the international level.

#### ***The Egmont Group of Financial Intelligence Units (Egmont Group)***

Bank Negara Malaysia had been a member of the Egmont Group since July 2003. The Egmont Group is an informal organisation established to stimulate international co-operation through information exchange, training and sharing of expertise. The exchange of information to and from the other 100 FIUs worldwide was done through the Egmont Secure Web. Any information provided may not be shared with a third party nor be used in an administrative, investigative, prosecutorial, or judicial purpose without prior consent of the disclosing FIU.

#### ***Cross-Border Co-operation on Exchange of Information***

Pursuant to Section 10 of the Anti-Money Laundering Act 2001 (AMLA), Bank Negara Malaysia is permitted to communicate any information to a corresponding authority of a foreign State if an arrangement existed between Malaysia and that foreign State. Bank Negara Malaysia signed an MoU for the exchange of financial intelligence with the Anti-Money Laundering Office of Thailand in April 2005. The MoU will facilitate co-operation for both parties to gather and analyse information on financial transactions suspected of being

## **The Bank continued to enhance the AML/CFT regime by strengthening international collaborative efforts through entering into MoUs with foreign counterparts for information exchange, participating in technical assistance programmes and playing an active role in international fora.**

related to money laundering, terrorism financing or other serious crimes to assist in the investigation and prosecution of persons suspected of those crimes. To date, Bank Negara Malaysia has concluded similar MoUs with the FIUs of Australia, Indonesia and the Philippines. Bank Negara Malaysia has finalised the negotiation on a similar MoU with the People's Bank of China and will sign the MoU in 2006. Currently, Bank Negara Malaysia is at various stages of negotiations with other foreign counterparts to execute similar MoUs.

#### ***Participation in AML/CFT Mutual Evaluation***

As part of our participation in AML/CFT initiatives, Malaysia provided a legal expert for the APG's mutual evaluation on Brunei in January/February 2005 and a financial expert in the joint FATF/APG mutual evaluation on the United States in December 2005/January 2006. Such mutual evaluation assesses the effectiveness of a country's AML/CFT system and its compliance with international AML/CFT standards. Due recognition was given where standards are met and where weaknesses are identified, appropriate recommendations are made with a view to rectification and improvement.

#### ***Technical Assistance***

Malaysia's approach in implementing the national AML/CFT regime that took into account domestic environment is looked upon as a model for neighbouring countries. Bank Negara Malaysia provided technical assistance to the Lao PDR on the establishment of AML/CFT policy and procedures for two state-owned commercial banks in February 2006 under the sponsorship of the Asian Development Bank. This technical assistance was similar to the assistance provided in 2004 to the National Bank of Cambodia. Bank Negara Malaysia shared its experience in the establishment of an FIU at the International Seminar on Money Laundering in

Islamabad, Pakistan in March 2005 and at the IMF Workshop in Singapore in November 2005. Malaysia also provided technical expertise at the WB's 'Train the Trainers' Workshop in Bangkok in May 2005 and at the AML/CFT Symposium in China in September 2005.

### Capacity Building

As domestic financial systems become internationally integrated with more extensive international networks, it requires a more sophisticated approach to conduct surveillance on financial transactions and detecting any potential illicit financier. It is also important to develop the expertise of personnel involved in investigating money laundering and terrorism financing so as to effectively deal with changes occurring in the international environment. In this regard, Malaysia would continue to enhance its AML/CFT regime to ensure that it remains effective in detecting and deterring criminal activities.

### Economic and Financial Co-operation

The collaborative efforts on regional financial co-operation in the area of short-term liquidity support in the region and in the further development of regional bond markets gained significant strides in 2005. The Bank participated in various fora to further promote regional economic and financial co-operation, as well as collaborated in the formulation of general agreements on issues of common interest to the region.

The Chiang Mai Initiative (CMI) which comprises two components, namely the ASEAN Swap Arrangement (ASA) among the ASEAN countries and a network of bilateral swap arrangements (BSAs) among the ASEAN+3 countries moved forward in arrangements to enhance the effectiveness of the CMI to address short-term regional liquidity difficulties and to complement the existing international financial facilities. The measures included the doubling of the size of the ASA to USD2 billion at the prevailing proportions of contributions by member countries. The decision reflected the strong motivation of ASEAN countries to further enhance regional self-help arrangements and signaled the move towards greater financing co-operation to address the increased risks of large speculative global capital flows. Consequently, Malaysia's financial commitment doubled to USD300 million (see Table 11.1). The new MoU on the expanded ASA came into force on 17 November 2005.

In May 2005, the ASEAN+3 Finance Ministers agreed on a set of specific measures to raise the level of effectiveness of the BSA network. These comprise initiatives to integrate and enhance the ASEAN+3 economic surveillance into the CMI; clearly-define the

swap activation process and adopt a more effective collective decision-making mechanism; increase the size of bilateral swaps significantly; and improve the mechanism for speedy drawdowns. The Bank remained actively engaged in the Working Group on the Review of the CMI whose proposals were endorsed by the Finance Ministers. Malaysia and PR China, were also appointed as the lead countries of the joint study on the possible routes and progressive steps in multilateralising the CMI towards a more effective pooling and utilisation of liquidity support among member countries.

## The further strengthening of regional financial cooperation was reflected in the expansion of the ASEAN Swap Arrangement, efforts to enhance the effectiveness of the network of bilateral swap arrangements under the Chiang Mai Initiative, and an acceleration in the development of the Asian Bond Market Initiative and the Asian Bond Fund.

Under the CMI, Malaysia has entered into three BSA agreements, namely with Japan, Korea and PR China. In October 2005, Malaysia's BSA agreement with Korea was renewed for another three years upon its expiry. Consonant with decisions made in

**Table 11.1**  
**ASEAN Countries' Commitments under the expanded ASEAN Swap Arrangement (ASA)**

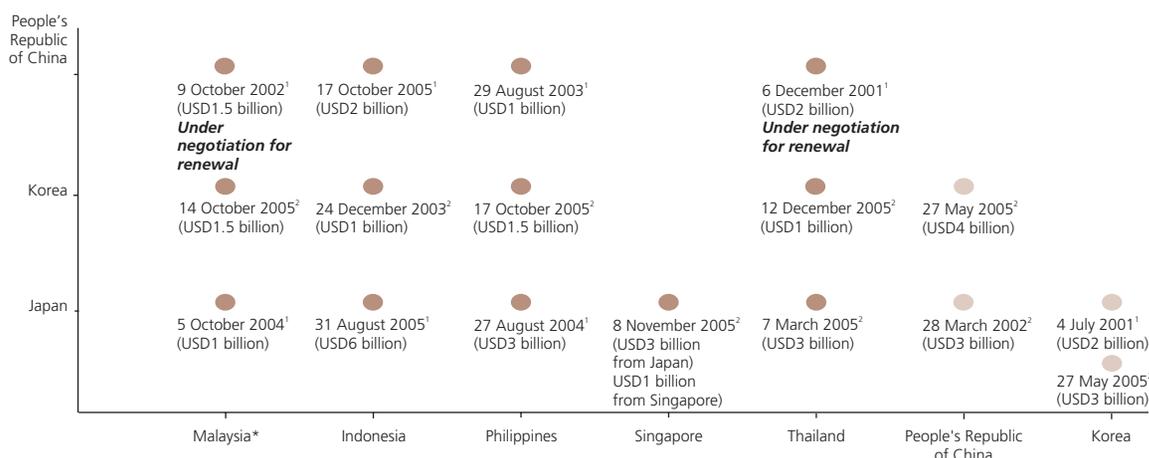
Countries	New Commitments with increase of ASA size to USD2 billion (USD million)	% of total size of ASA
Brunei	300	15.0
Indonesia	300	15.0
Malaysia	300	15.0
Philippines	300	15.0
Singapore	300	15.0
Thailand	300	15.0
Cambodia	30	1.5
Lao PDR	10	0.5
Myanmar	40	2.0
Vietnam	120	6.0
<b>Total</b>	<b>2,000</b>	<b>100.0</b>

May 2005 by the ASEAN+3 Finance Ministers, bilateral negotiations between Malaysia and Korea resulted in agreement on increasing the swap size of the BSA from USD1 billion to USD1.5 billion. In addition, the initial drawdown that could be made without being subject to the IMF conditionality was increased from 10% to 20% of the swap size. In the case of the BSA agreement between Malaysia and PR China, the Bank had entered into negotiations with the People's Bank of China on renewing the agreement. The new agreement is expected to come into effect in 2006. Collectively, as at end-2005, the BSA network which comprised 16 agreements

to four working groups in May 2005, focusing respectively on creating new securitised debt instruments, credit guarantees and investment mechanisms, foreign exchange transactions and settlement issues, and rating systems. At the same time, to facilitate more effective coordination for the Focal Group on ABMI, an Ad-hoc Support Team and a Technical Assistance Coordination Team were established in accordance with the ABMI Roadmap endorsed by the ASEAN+3 Finance Ministers in May 2005.

Achievements of the working groups in 2005 included, amongst others, the completion of studies on the setting up of a credit guarantee and investment

### Bilateral Swap Arrangement Agreements under the Chiang Mai Initiative as at end-2005



Dates indicate when the agreements have been signed and the maximum drawing amount for each agreement is indicated in parentheses.

- <sup>1</sup> A one-way swap arrangement where the requesting country under the agreement can request the swap-providing country to enter into a swap transaction.
- <sup>2</sup> A two-way swap arrangement where either party could request the other party to enter into a swap transaction under the agreement.
- \* Malaysia's three BSAs are of a three-year tenure.

- Agreements signed between the Plus Three countries (People's Republic of China, Japan and Korea) and ASEAN countries.
- Agreements signed among the Plus Three countries.

amongst eight ASEAN+3 countries, totalled USD58.5 billion, an increase from USD36.5 billion at end-2004.

On the cooperative efforts to further develop the regional bond markets, advancements in promoting greater and more efficient financial intermediation were mirrored in the new initiatives to accelerate capital market development within the Asian Bond Market Initiative (ABMI) under the ASEAN+3 forum and the Asian Bond Fund (ABF) under the EMEAP. Under the Asian Bond Market Initiative (ABMI), the ASEAN+3 member countries continued to make significant advancements in contributing to the development of deeper and more liquid bond markets. At the working group level, to enhance efficiency, the initial six working groups<sup>3</sup> that were established in 2003 were re-organised

mechanism to support issuances of bonds in the region, treatment of withholding tax and possible issuance of regional multi-currency bonds. Under the Working Group on Foreign Exchange Transactions and Settlement Issues, chaired by the Bank, two studies were completed, namely on impediments to cross-border investments and issuance in Asian countries, and on the possibility of setting up a regional settlement linkage to address gaps within the current settlement arrangements for bonds amongst member countries. Following the completion of the former, member

<sup>3</sup> The six working groups formed were on 'New Securitised Debt Instruments', 'Credit Guarantee and Investment Mechanisms', 'Foreign Exchange Transactions and Settlement Issues', 'Issuance of Bonds Denominated in Local Currencies by Multilateral Development Banks, Foreign Government Agencies, and Asian Multinational Corporations', 'Rating Systems and Dissemination of Information on Asian Bond Markets', and 'Technical Assistance Co-ordination'.

countries agreed to provide the minimum relevant information on the rules and regulations involving cross-border bond investments and issuance. Information provided by member countries would be regularly updated on the Asian Bonds Online website<sup>4</sup>. With regards to the latter study, member countries have agreed to undertake the second phase of the study in 2006, focusing on reductions of various risks, in particular foreign exchange settlement risks in cross-border payment and settlement systems.

Meanwhile, concrete achievements by individual ASEAN+3 member countries included local-currency bond issuances by the multilateral development banks in Malaysia, Thailand, China and the Philippines, and the introduction of new instruments such as the securitizing of student loans in Korea.

In complementing the ABMI, the EMEAP Group moved to implement the second phase of the Asian Bond Fund (ABF2) initiative, which encompassed public participation in the fund. The ABF2 consists of nine funds, eight of which are single market local currency funds investing in sovereign and quasi-sovereign bonds issued in China, Hong Kong, Indonesia, Korea, Malaysia, the Philippines, Singapore and Thailand respectively, while the Pan-Asian Bond Index Fund (PAIF) is a single bond fund investing in a composite of sovereign and quasi-sovereign bonds issued in the local currencies of all the eight EMEAP economies. The PAIF, which was listed in July 2005 in Hong Kong, has grown by 10.2% since its listing to USD1.1 billion as at end-2005. In 2005, three of the eight single market funds were successfully listed on their respective stock exchanges. These comprised the ABF Hong Kong Bond Index Fund, ABF Malaysia Bond Index Fund, and ABF Singapore Bond Index Fund, which were listed in June, July and August, respectively.

The listing of the ABF Malaysia Bond Index Fund, the first Exchange Traded Fund (ETF) in Malaysia, added to the diversity of listings on the Malaysian Stock Exchange and also paved the way for the increased introduction of other more innovative products. The listing of the ETF also raised awareness and generated interest among domestic and international investors in the Malaysian bond market, thus contributing towards the development of a deeper and broader bond market in Malaysia. Since its launch, the low cost ETF achieved 27% growth as at end-2005.

During the year, Bank Negara Malaysia continued to promote the Bilateral Payments Arrangement (BPA) as part of Malaysia's efforts to enhance its trade co-operation with non-traditional markets. Bank Negara Malaysia, as the implementing agency for the Palm Oil Credit and Payments

Arrangement (POCPA) scheme continued to collaborate with the Government to finance Malaysian palm oil exports to markets with potential growth in their demand and usage for oils consumption. Moving forward, Bank Negara Malaysia will continue to enhance the effectiveness of the BPA scheme and also explore the possibilities of expanding the number of countries, particularly to OIC member countries. Currently, Bank Negara Malaysia had signed the BPA with 24 countries, of which nine are OIC member countries, while five out of the 10 countries benefiting from the POCPA scheme are OIC member countries.

### Regional members spearheaded new initiatives to transform the SEACEN Centre into an institution of regional excellence and choice of training by central bankers in this region.

Bank Negara Malaysia continued to accord a high priority to regional co-operation in human capital management to strengthen domestic capacities in the financial sector and macroeconomic management. In this regard, Bank Negara Malaysia strongly supported the training activities of the SEACEN Research and Training Centre, focusing on topics relating to core central banking functions, especially in banking supervision, financial sector reform and formulation of monetary policy. During the year, the SEACEN Centre extended its training to 22 non-members while continuing to provide training to its members which expanded to 14, with the admission of the Bank of Papua New Guinea in June 2005. In conducting its training activities, the Centre collaborated with international training institutes, including the Toronto International Leadership Centre, the IMF Institute, the Financial Stability Institute, the WB Institute and the ADB Institute. At the same time, collaboration was also established with central banks from developed countries, such as, the Federal Reserve System of the United States and the Bank of Japan. In 2005, for the first time, the Centre collaborated with the APEC Business Advisory Council, the Asian Bankers' Association and the Pacific Economic Co-operation Council to conduct the public-private Dialogue on 'Cross-Border Implementation of Basel II and Emerging Regulatory Banking Supervisory Issues'.

<sup>4</sup> [www.asianbondsonline.adb.org](http://www.asianbondsonline.adb.org)

This collaboration would be enhanced to bring in the business perspective into the training conducted by the Centre.

Given the challenges facing the Centre in performing its functions in the dynamic global environment, regional members spearheaded new initiatives to transform the SEACEN Centre into an institution of regional excellence and choice of training by central bankers in this region. As a result, a broad strategic direction to guide the Centre in conducting its training and research activities was formalised in 2005. The strategic direction on training involved developing training modules and leveraging on technology, establishing strategic partnerships as well as strengthening the existing collaboration with internationally reputable training institutions to design and develop high quality training programmes. As a start, a flagship course would be developed for different levels of central bank staff and with different degrees of depth and complexities. This

would enable member central banks to select training activities according to their needs. With regard to the strategic direction on research, the Centre would enhance its research activities, in particular on issues of regional importance to central banks, which were relevant to and supported the training activities.

As part of the Bank's continued efforts to contribute to the region's capacity building for long-term growth, the Bank organised training and attachment programmes, as well as extended assistance in the form of study visits and briefings to share its experience with others. Under the Malaysian Technical Co-operation Programme (MTCP), the Bank offered places to foreign participants in two annual programmes, namely the Central Banking Course (since 1984) and the Banking Supervision Foundation Course (since 2002). To date, the Bank received a total of 253 foreign participants since the inception of the courses. In 2005, a total of 19 officials from 14 countries participated in the training programmes.

<b>Key International Events Hosted by Bank Negara Malaysia in 2005</b>	
<b>JUNE 2005</b>	
<b>22<sup>nd</sup></b>	<p><b>Seminar on 10-Year Master Plan for Islamic Financial Services Industry</b></p> <p>The IDB and the IFSB, in association with Bank Negara Malaysia, jointly organised the Seminar on 10-Year Master Plan for Islamic Financial Services Industry. It was held in conjunction with the 30<sup>th</sup> Annual Meeting of the IDB Board of Governors. The objective of the seminar was to discuss key issues and considerations in the formulation of a master plan for the progressive and structured development of Islamic banking and finance. The master plan would define the blueprint and provide a common vision and template, as well as the implementation steps for countries in charting the future of the Islamic financial services industry. The seminar attracted more than 700 delegates comprising regulators, supervisors, market players and corporate figures from around the world.</p>
<b>22<sup>nd</sup>-23<sup>rd</sup></b>	<p><b>Investors Conference on 'Malaysia: An Investment Destination'</b></p> <p>The Conference was held in conjunction with the 30<sup>th</sup> Annual Meeting of the IDB Board of Governors. Highlighting both conventional and Islamic investment opportunities in Malaysia in an environment of rapidly changing financial landscape, financial liberalisation and economic transformation, the Conference received an overwhelming response, with participants from 100 global institutions from 30 countries. At the close of the conference, two indices, namely, the Citigroup Malaysian Government Securities Index and the Dow Jones-RHB Islamic Malaysia Index were launched, marking another milestone in the development of the Malaysian capital market.</p>
<b>22<sup>nd</sup>-23<sup>rd</sup></b>	<p><b>Shariah Scholars Dialogue</b></p> <p>A closed session dialogue was organised by Bank Negara Malaysia to discuss the need to foster the understanding among Shariah scholars on Islamic finance. The dialogue was attended by more than 40 Shariah scholars, including prominent scholars from Saudi Arabia, Tunisia, Iran, Bahrain, Pakistan, Bangladesh,</p>

Indonesia, Brunei and Malaysia. Recognising the vital role of the Shariah scholars in the development of a progressive Islamic banking and finance sector and in facilitating its integration with the global market place, a RM200 million endowment fund was established by Bank Negara Malaysia to provide the funding needs for research and development, and human capital development in the areas of Shariah and fiqh muamalat.

**24<sup>th</sup>**

**Seminar on 'Derivatives in Islamic Finance'**

Bank Negara Malaysia and the Financial Market Association of Malaysia co-hosted a Seminar on 'Derivatives in Islamic Finance' as part of on-going efforts to accelerate the growth of Islamic financial markets by strengthening the linkages of their components. This necessitated the development of a wider range of Islamic financial instruments including a tool for hedging or managing risk.

The Seminar was attended by participants from both local and foreign institutions who explored new ideas on managing risks from the Islamic perspective with special focus on the opportunities and challenges faced in implementing Shariah compliance risk-mitigating techniques such as Islamic Profit Rate Swap and Islamic Foreign Exchange Forward Contract. The Seminar would spur the need for greater collaborative efforts among regulators, Shariah scholars, Islamic financial engineers, researchers and practitioners to convert conceptual ideas into risk mitigation techniques and products to pave the way for a more vibrant and dynamic Islamic Financial system.

**JULY 2005**

**13<sup>th</sup>-15<sup>th</sup>**

**The Euro Conference**

The Euro Conference was jointly organised by the Bank and the European Commission. The high-level conference, themed 'Expanding ASEAN-EU Economic Links – The Role of the Euro', aimed to explore issues in further strengthening ASEAN-EU economic relations against the backdrop of the increasing role of the euro in the international financial system. The Conference provided a platform for an exchange of views on financial market developments and prospects in ASEAN and the EU, economic and financial integration, and the opportunities for increased trade and investment linkages between the two regional groupings.

Overall, the discussions at the Conference underscored that the bilateral spirit of cooperation between ASEAN and the EU was intact and growing but that there was a need to strengthen cooperation with each other so that both the regional groupings can reinforce the positive partnership to perpetuate continued shared prosperity. It was recognised that the future of ASEAN-EU relations would be dependent on the changing strategic landscape amidst globalisation, ASEAN's and the EU's desire to play a greater role in the global economy and international affairs, the EU's ability in managing its enlargement process, and ASEAN's commitment to forge greater regional integration.

**NOVEMBER 2005**

**21<sup>st</sup>-23<sup>rd</sup>**

**Regional Conference on Investment Climate and Competitiveness in East Asia**

The Regional Conference on Investment Climate and Competitiveness in East Asia was jointly organised by the Economic Planning Unit of Malaysia, the WB and Bank Negara Malaysia in Kuala Lumpur. The objective of the Conference was to provide a platform for international experts, private sector representatives, and policy makers from the East Asian region to share experiences in designing and implementing policies to create a good investment climate that would lead to better economic and social outcomes through improvements in productivity and competitiveness, resulting in higher growth and greater wealth creation.

The Conference, which attracted senior officials and private sector participants from 10 countries, namely Brunei, Cambodia, China, Indonesia, Laos PDR, Malaysia, Mongolia, Philippines, Thailand and Vietnam, discussed the following:

- Various forms of investment climate constraints. These included uncertainties in government policies, inadequate infrastructure, poor governance, insufficient human capital, overly restrictive regulatory framework and inadequate access to finance;
- Effects of investment climate constraints on firm performance;
- Programmes and policies to address the constraints to enhance firm productivity; and
- Some lessons from benchmark countries.

The Conference created greater awareness among participating countries on new pressures and challenges from the rapidly changing economic and financial environment and various approaches that could be taken to attract investment and enhance the growth potential.

## **DECEMBER 2005**

**14<sup>th</sup>-16<sup>th</sup>**

### **Third International Forum on Financial Consumer Protection and Education**

The Third International Forum on Financial Consumer Protection and Education hosted by Bank Negara Malaysia was themed 'Fostering Greater Consumer Protection and Education'. The Forum provided a platform for financial regulators worldwide to discuss emerging issues relating to consumer protection and education as well as to share knowledge and experiences in these areas.

Some 60 participants from 30 countries, comprising senior officials from regulatory authorities attended the Forum. The Forum examined approaches to promoting fair market practices and equitable treatment of consumers as well as effective product disclosure and transparency standards. The Forum also saw an exchange of views on measuring effectiveness of these approaches and on the future or direction of financial consumer protection and education. Significant progress was made in fostering closer working relationships among regulators and laying the groundwork for the development of best practice standards on consumer protection and education issues.