13th Annual Conference of Fixed Income, Money Market and Derivatives Association of India (FIMMDA) and Primary Dealers Association of India (PDAI) Kuala Lumpur, 27 January 2012

Keynote Adress by

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It has been more than half a decade since the beginning of the global financial crisis, and its ramifications continue to reverberate across the world. Currently, the global financial and economic landscape continues to be confronted with stress and uncertainty, stemming from the prevailing structural weaknesses, deleveraging of the private financial and non-financial sectors, and the escalating strains in public finances in the advanced economies. Despite these significant near-term challenges, the fundamental global economic and financial transformation that commenced prior to the crisis has continued unabated. A new global economy is emerging. The rise in significance of the emerging economies is resulting in a fundamental realignment in the global landscape as the balance of global economic strength shifts to the emerging economies, with its consequent implications on long-term global economic and financial flows. With the rapid growth in domestic demand, reinforced by the vast productive investment opportunities within and across the emerging economies, it is projected that the emerging world will account for 60 percent of total world output by 2030, higher by 20 percent from its current level.

It is my pleasure to welcome you to Malaysia for this 13th Annual Conference that is being organised by the Fixed Income, Money Market and Derivatives Association of India and the Primary Dealers Association of India. We are most pleased to host this conference here in Kuala Lumpur. The theme of this conference, "Asian Money, Bonds and Derivatives in the New Global Economy", is a relevant topic to be discussed in this period of transition to an increasingly multipolar world, in which Asia together with other emerging regions will have an increasingly more important role.

Asia's Potential and Regional Integration

While this recent global financial crisis has provided us with challenges, it has also seen the resilience of Asia in weathering a number of major shocks in the international financial markets. Asian financial systems have demonstrated the capacity to continue to function and to meet the demands of its significant investment requirements. Moreover, the trend towards greater regional financial integration will provide for a more effective and efficient channeling of the sizeable surplus funds to such activities within the region. This increased intra-regional economic and financial activities is already taking place. The economic integration is supported by the strong demand from the growing middle class Asian population, which is projected to reach 3.3 billion by 2030. The intra-regional trade in Asia now represents more than 50 percent of total trade in the region, increasing from 32 percent in 1995. Intra-regional investment activities have also been on a rising trend.

With the strong economic fundamentals and the positive growth prospects of Asia, international and regional financial institutions are also now shifting their focus into the region. With the high savings rate in Asia, and of its massive requirement for infrastructure development, the region would benefit significantly from more effective and efficient intermediation of Asia's surplus funds. Indeed, intra-regional cross-border portfolio investments have already increased to 28 percent of total assets holdings in 2011 compared with 21 percent in 2001. The gains from greater regional financial integration will be far-reaching as it will not only bring about a more efficient allocation of resources in the

region but it will act as a catalyst for greater regional economic growth. Over the coming years, as growth experienced in the developed economies is expected to remain slow in the aftermath of the financial and debt crisis, the growth performance of Asia is expected to continue resulting in the region becoming a more important component of the global economy.

Asian funding markets have also remained highly accessible during this period with Asian names enjoying strong demand and attractive funding costs at a time when the developed countries funding markets have tightened. During this more challenging time, Asian sovereigns such as Indonesia, Philippines, Thailand, Sri Lanka, Vietnam and Malaysia continue to successfully tap the market and to issue bonds with tenure up to 30-years. In addition, as financial markets in Asia become more developed, the markets now have the capacity to transact large quantities with cost effective pricing. In 2011, Malaysia issued the first 10 year global sovereign USD Sukuk, with the issuance size of 2 billion, under an innovative Shariah principle of Wakala which recorded the lowest absolute yields achieved by an Asian sovereign for a new USD issuance. Another recent landmark issuance on the domestic front is by PLUS Berhad, the largest toll operator in Malaysia, with the issuance of a record size of RM30.6 billion programme, equivalent to USD9.7 billion, with maturities ranging from 5 years to 27 years.

The depth and breadth of Asian capital markets have drawn investors to expand their investment activities to this region. Even central banks, as traditionally conservative investors, are also venturing into investing part of their reserves, in each other's markets. Bank Negara Malaysia, has since 2003, gradually embarked on investments in regional markets. This includes investments in the Indian rupee market. As an approved Foreign Institutional Investor, we have also been able to actively participate in the Indian rupee market.

Progression in the Malaysian Financial Markets

Progressive efforts have been made to transform Malaysia's financial sector with a major dimension of the transformation involving achieving greater regional integration. Following a decade, institutional and financial infrastructure development that focused on enhancing domestic capacity of the financial sector while evolving a more competitive environment. We have the foundations to take our financial sector to a new level of development that will focus on new areas that will further strengthen the competitiveness and efficiency of the financial sector and its potential role in facilitating Malaysia's ongoing economic transformation and in strengthening our linkages in the region.

As Malaysia evolves and the new financial landscape emerges, one prominent area of focus is the development of deep, liquid and efficient financial markets in particular, the development of our domestic bond market. Malaysia's bond market has already grown to MYR867 billion or 105 percent of GDP in 2011, and has become one of the largest debt securities market in South East Asia which has now been liberalized to allow issuance by foreign corporation and in multiple currency. Our Islamic capital markets have also thrived, with a growing presence of international issuers and investors operating in both the ringgit and foreign currency sukuk markets in Malaysia. We have seen new innovative structures for sukuk issuances including a world's first issuance in Renminbi from Malaysia's own sovereign wealth fund, Khazanah Holdings. The money and foreign exchange markets also continue to grow in depth and liquidity. The volumes transacted in the domestic money market and the foreign exchange market have now reached RM23.5 trillion and RM9.21 trillion trades respectively. Participation in these markets have also broadened significantly with the growing presence of new issuers, banks, institutions and investors in general, including a growing presence of regional players.

In moving forward, measures will continue to be introduced to broaden further the participation of regional players in the domestic market through progressive liberalization of the foreign exchange administration rules and also the development of cross-border settlement infrastructures to enable more efficient and cost effective foreign currency trading and settlements.

Arrangements Supporting the Regional Integration Process

The region has more recently worked collectively towards establishing arrangements to support the economic and financial integration process. In particular, the ASEAN region has already benefited from the implementation of the ASEAN Free Trade Area (FTA), which was established to increase ASEAN's competitive edge as a production base in the world market through the elimination of trade barriers within ASEAN. This is now further strengthened with the implementation of the ASEAN Investment Area which was adopted to promote greater flows of capital, skilled labour and technology within the region. In the area of financial markets, the ASEAN Capital Markets Forum Blueprint is also working towards achieving significant progress in building a regionally integrated market. This vision encapsulates free movements of capital, freedom for issuers to raise capital anywhere and for investors to have access to investment avenues anywhere within the region. In such a market, investors would be able to trade in ASEAN capital market products freely in any ASEAN market at a competitive fee from a single access point, with capital market intermediaries being able to provide services throughout ASEAN. The strong cross-border linkages of an integrated ASEAN capital market provide vast business opportunities for countries to capitalize on the diverse comparative advantages in this region.

As an access point, Malaysia is well positioned to be one of the gateways for non-ASEAN countries, institutions and investors to participate in these markets. Malaysia has a facilitative environment with a strong regulatory and supervision to support business activities while safeguarding financial stability. In addition, there has also been the strengthening of bilateral economic and financial ties, which has become a prevalent theme across Asia. Supplementary to these affiliations, is also a strong trend to increase participation in Asia's enormous growth potential through affiliations in regional bodies. Within the ASEAN grouping, among the areas of priority is the deepening of cooperation to accelerate the role of the financial sector in supporting the realization of the ASEAN Economic Community by 2015.

Risk Mitigation as Asia Strives for Regional Integration

The events surrounding the recent European sovereign debt crisis provide us with many important lessons. While exposures to numerous financial markets bring about tremendous economical and financial benefits, it is not without risks. Financial integration between markets, if not well designed, can lead to costly financial implications. Hence, the path to integration can expect its associated challenges that will need to be addressed. In implementing institutional arrangements across the region, it can be expected that individual countries will have to balance national priorities while seeking to strengthen their place in the global market.

Asia has therefore adopted a different approach to regional integration. The effort towards integration is from the perspective of strengthening economic and business ties, complemented by strengthening the resilience and stability of the financial sector. Towards this, regional surveillance mechanisms are being put in place reinforced by financial support facilities and an integrated framework for crisis resolution. Various forums among regulators and central banks are already in place across most of Asia to collectively enhance crisis management. Such fora also serves as financial safety nets across the region to ensure that the financial institutions operating in this region will be able to withstand the destabilizing spill-over effects of a global financial crisis in an orderly manner. Malaysia is already implementing such arrangements, with swap agreements and cross border collateral arrangements that will serve as an alternative avenue for banks operating in Malaysia and the region to obtain liquidity for their efficient functioning including during challenging times. Bilateral arrangements that are now being entered into will allow for the acceptance of each others' currency and securities as collateral.

Strengthening economic and financial ties with India

The potential for collaboration between India and Malaysia is tremendous. Historic and cultural ties originate many years back and

form a strong foundation for the relations to be strengthened going forward. Currently, Malaysia's exports to India has amounted close to USD9 billion in 2011, equivalent to 4.1 percent of Malaysia's total exports, while the outstanding direct investments from India is now close to half a billion USD. The financial sector has an important role to be a catalyst to facilitate growth in such trade and investment activities between India and Malaysia. The establishment of our relationship has already begun with the issuance of a full commercial banking license to an Indian bank to operate here in Malaysia in 2010. A licence has also been granted to an Indian fund manager.

Rise of Islamic Finance in the New Global Economy

Another development in several emerging economies in Asia and the Middle East is the rapid growth of Islamic finance. An important development in this decade has been the growing significance of the international dimension of Islamic finance and its increased role in mobilising and channeling funds to productive investment activities across borders. Expanding steadily at a double digit pace of growth, total Islamic financial assets currently is estimated to be more than US$1 trillion. With more than 600 Islamic financial institutions now operating in more than 75 countries, countries from Asia, Middle East and Africa are increasingly participating in cross-border financial markets. In financing trade and investment activities, Islamic finance has influenced a new global pattern of trade and financial flows.

Islamic finance serves as an important channel for more efficient allocation of funds across borders and diversification of risks. It has facilitated stronger financial and economic ties between Asia and Middle East. The sukuk market in particular, has become an important avenue for international fund raising and investment activities that generate significant cross-border flows. The sukuk market has experienced tremendous growth in the recent few years from an outstanding amount of USD33 billion in 2006 to USD180 billion as at end 2011. Malaysia is now evolving to become a major multi-currency bond and sukuk market.

Important in this development are the initiatives that have been taken to strengthen the institutional and international infrastructure of Islamic finance. Most important is the emphasis being given to the development of the international financial infrastructure relating to financial stability. The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) was established in 1990 and in 2002, the Islamic Financial Services Board (IFSB) was established as the international prudential standard setting body for the Islamic finance industry in the areas of risk management, capital adequacy, governance, conduct of business and supervisory process. From ten members at its inception, the IFSB is now a 189 strong member institution comprising mainly regulatory and supervisory authorities.

A more recent initiative is the establishment of the Islamic Financial Stability Forum (IFSF) as a platform for greater engagement between the regulatory authorities in the Islamic financial system and promoting more effective cross-border cooperation.

Efforts now is focused on putting in place arrangements for enhancing liquidity management in the Islamic financial system. The International Islamic Liquidity Management Corporation (IILM) was therefore established in 2010 as a collaborative effort between 12 central banks and two multilateral organizations to facilitate effective liquidity management solutions through the periodic issuance of short-term Shariah-compliant financial instruments.

Let me now conclude my remarks. This decade has been a defining moment for Asia, characterized by rapid global expansion and increased internationalisation. Among the important trends are the significant actions taken by many emerging economies in Asia towards increased liberalisation as well initiatives toward strengthening of cross-border linkages. Moving forward, it is essential for us to continue to establish strong collaboration given the dynamic nature of the economies and financial markets today. As the new decade beckons the prospects for new opportunities, our ability to capitalize on these opportunities and realize its potential will be increasingly determined by our capability and capacity in building such strong and lasting regional and global linkages.

International Conference on "Asian Market Integration and Financial Innovation" Tokyo, 10 February 2012

Keynote Address by

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The world economy and international financial system is entering into a new phase of globalisation. Far from having an effect of slowing the pace of globalisation, the recent global financial crisis has intensified the process, resulting in a more connected and interdependent world. While - previously - globalisation manifested itself in the form of trade and investment between the emerging and developed world, emerging economies are now becoming more connected with each other within and across regions. This trend is being reinforced by similar changes in the pattern of financial flows. While previously, financial flows were predominantly between the developed and emerging world, greater financial integration among the emerging economies is facilitating the intensification of this connectivity.

While unable to be in Tokyo, it is my pleasure to speak at this international conference on the topic of Asian Financial Integration. My remarks will touch on the main motivation for pursuing financial integration in Asia, despite the fact that its absence has not previously hindered economic integration in the region. Whilst Asia may draw lessons from the European experience, I will discuss the different approach that is being pursued in Asia. The growing internationalisation of Islamic finance is also contributing to strengthened economic and financial ties among emerging economies including in Asia and the Middle East. Finally, I will discuss the current global regulatory reform and its possible implications for regional financial integration in Asia.

The aspiration for greater economic and financial integration in Asia is to achieve greater shared prosperity that is mutually reinforcing for the economies in the region. Regional financial integration will achieve more efficient and effective intermediation of funds to enable at least some part of the surplus savings of the region to be channeled to productive investments in the region, and at lower costs with improved risk diversification. Improved access to financing would also support intra-regional trade while a more cohesive region will facilitate greater collaborative efforts on safeguarding financial stability. Collective actions would also enhance the ability to better manage and respond to risks to the region. And finally, as a cohesive group, our perspectives and position would be better represented in the governance structure and processes in the international financial system.

Approach of Financial Integration in Asia

Asia comprises a highly heterogeneous group of countries that are different in terms of economic structure, natural resources, degree of market orientation, stage of development, size and degree of openness. Asian economies have however, recognised the respective individual comparative advantages and have leveraged on the prevailing complementarities. Given the diverse nature of the region, it would be highly ambitious and challenging to achieve the necessary preconditions for achieving an integration that is similar to that in Europe.

The integration process in Europe was taken forward with the establishment of supranational institutions with mandates to promote common approaches and frameworks across the member states in the union. In contrast, Asia is adopting a more flexible approach. Regional financial integration in Asia has manifested itself mainly in the form of greater regional presence and participation in domestic financial systems. This is taking place with the gradual and sequenced liberalisation of the financial sector and the capital account.

Capital account liberalisation in particular is prompting increased intra-regional investment and portfolio flows which in turn contributes to the deepening of the financial markets.

By itself, the liberalisation of the financial sector and the capital account will however, not be sufficient to achieve regional financial integration. Most important, is the development of regional financial markets, the financial infrastructure including the regional payments and settlement systems, harmonising the financial standards and practices including the regulatory and supervisory regime and building the institutional capacity of the domestic financial intermediaries. For the ASEAN region, an agreement has already been reached to allow for different speeds of integration depending on the state of readiness of the respective member countries. This is being reinforced by arrangements for surveillance for assessments of risks to the region and regional frameworks for crisis management and resolution, including arrangements for mutual assistance. Equally important in this process is the cooperation and collaboration among regulatory authorities for sustaining regional financial stability. Much of this work has focused on putting in place strong and effective institutional arrangements to preserve regional financial stability.

In the decade following the Asian Financial Crisis, most of Asia has accelerated the pace of financial sector development and reforms. Several of the Asian economies have made significant strides in improving the soundness and efficiency of financial institutions and in developing domestic financial markets. At the regional level, key initiatives have included the development of the regional bond markets through the creation of various Asian Bond Funds and the ASEAN+3 Bond Market Initiatives, the regional arrangements for crisis management that includes liquidity support, and the collaborative efforts advanced under EMEAP to facilitate liquidity management for financial institutions operating in the region through Cross-Border Collateral Arrangements. Currently, while intra-regional cross-border portfolio investments within Asia is relatively small, it has already increased to 28 percent of total assets holdings in 2011 compared with 21 percent in 2001.

Another important development that has contributed to greater regional financial integration is the increasing role of Islamic finance in the international financial system. In its early stages of development, Islamic finance was highly domestic-centric in its orientation. This recent decade has seen the rapid internationalisation of Islamic finance resulting in significant growth in cross border financial flows. The development of Islamic financial markets, in particular, the sukuk market, the progressive financial sector liberalisation, and the establishment of international arrangements and institutions to safeguard financial stability, cumulatively have contributed to enhance the international dimension of the industry. There are now more than 600 Islamic financial institutions operating in more than 75 countries.

Given that Islamic financial transactions require an underlying economic transaction, it is a form of financial intermediation that is well anchored to serve the real economy. With its internationalisation, it has become an increasingly more important channel for the efficient allocation of financial resources across borders and for the diversification of risks. This new international dimension of Islamic finance has facilitated stronger financial ties between Asia and the Middle East. The sukuk market in particular has become an important avenue for international fund raising and investment activities that generate significant cross border flows.

While the efforts to put in place these pre-conditions will continue, equally important is the role of the private sector in driving the Asian regional financial integration agenda, particularly in building the institutional capability to effectively intermediate funds in the region. While foreign presence throughout our region facilitates this process, it needs to be complemented by strong domestic regional intermediaries whose operations would be more inclusive and thus increase the potential for balanced growth in our region.

Asia has demonstrated its resilience to the many shocks from the international financial markets and the global economy during this recent global financial crisis. As highly open economies, most economies

in Asia have been highly affected by these developments. Stronger domestic demand, greater intra-regional trade and investment, reinforced by resilient financial systems and strong macroeconomic fundamentals, have supported the economic performance of our region. There have been tremendous payoffs for the region from the decade long of financial reforms, institutional building and development of financial infrastructure. Despite the highly challenging environment of slower trade and volatile financial markets, financial intermediation in Asia has continued uninterrupted and financial markets, while more volatile, have remained orderly. It is thus on these strong foundations that the regional financial integration in Asia is not being set back. On the contrary, despite these global developments, the integration process has continued and regional financial cooperation and collaboration has strengthened, reinforced by the increased regional participation and presence of the private sector.

Global regulatory reforms

Let me now turn to the global regulatory reforms and its implications for Asia. The global regulatory response to the financial crisis is now moving into the implementation phase. At its core are the reforms to build a stronger global regulatory framework to significantly raise the level of resilience of the banking system. While that work has now been largely finalised, the complex task of implementing the new global capital and liquidity standards is just beginning. Indeed, this implementation is proceeding at a time of a difficult global financial and economic environment. Several countries have however, announced their timelines, with some that are moving faster and further than the Basel III standards.

Asia is in a relatively stronger position to transition to the new standards. We are, however, vigilant over the global economic and financial consequences of its implementation in other parts of the world. As open economies, we are not insulated from these consequences. While the work of the Basel Committee suggests that the effect of tightening conditions on economic growth will be modest, the highly dynamic global financial conditions imply that regulators will have to continue to proceed cautiously, and on a fully informed basis, in implementing the new standards. Of importance is the need to recognise the point beyond which the costs to the real economy exceed the desired benefits of greater systemic resilience.

The reform agenda has also focused on the fundamental and no less significant changes to institutional arrangements and market structures. Some of these, such as reforms involving the OTC derivatives markets and policy frameworks for systemically important financial institutions (SIFIs), are being advanced through global platforms, notably the Financial Stability Board (FSB). Other reforms, such as the structural changes to banking models that are being contemplated in the UK and the implementation of wide-ranging reforms under the Dodd-Frank Act in the US, although not being imposed outside these countries, are nevertheless charting a path forward that is likely to have wider ramifications, given the significant cross-border operations of affected institutions, including in Asia.

Like most jurisdictions, the options for central clearing for domestic OTC derivatives are also being examined. These reforms are already under way in the world's larger financial markets to meet the G20 mandate for standardised OTC derivatives transactions to be centrally cleared by the end of 2012. For smaller OTC derivatives markets in Asia, the effects on domestic market efficiency and stability are key considerations in contemplating a move towards central clearing arrangements. A key concern is the potential for the offshore central clearing of transactions in key domestic markets to increase the stability risks to the domestic financial system. There will also be limited scope for domestic regulatory authorities to have oversight on such offshore central counterparties (CCP) and to respond during periods of financial stress. Domestic central clearing arrangements, however, could have negative effects on efficiency and the functioning of the market, in particular for cross border transactions. In addition, fragmented clearing arrangements could reduce netting opportunities and collateral efficiencies, in turn raising costs to participants. There is also a need to close important information gaps on

the rules that will govern global CCPs, including the criteria for mutual recognition of CCPs and membership conditions, as well as details on the arrangements to mitigate the concentration of risk to the CCP itself or its members. These gaps are currently limiting a more complete assessment of domestic and regional options for central clearing.

The global reforms for the most part would contribute to the promotion of more consistent approaches to regulation which is an important precondition for greater financial integration in Asia. In a number of countries, the global reforms have had a role in accelerating further domestic priorities to strengthen financial resilience. Initiatives that are being advanced at the global level also work to strengthen regional financial stability arrangements. This includes putting in place more robust frameworks for the oversight of systemically important financial institutions at a regional level. Within Asia, a clear evolution of such frameworks can already be seen in the operationalisation of cross-border supervisory colleges for financial institutions with a significant regional presence. The reforms have further encouraged closer coordination and communication on financial stability developments between countries in the region. This has been borne out of common perspectives and challenges shared among countries in the region on the direction and impact of the reforms, and the need to bring forward the collective views of the region. These implications will further strengthen the foundations for regional financial integration in Asia.

Policy shifts and the proliferation of binding "one-size-fits-all" regulatory prescriptions however, goes against the grain of regulation that is proportionate to risk which has been a well established principle of sound regulation. There is therefore considerable risk to simply following new `trends' which may lead us down yet another potentially misguided path. In particular, the significant efforts made in the region over the recent decade to bolster financial sector efficiency and innovation, which in turn promotes financial integration, could be disproportionately curtailed.

In addition, it has only been recently that the global attention has also turned to enhancing supervisory intensity and effectiveness as an essential component of the financial reform effort. This is a welcome move and will add a critical dimension to the consideration of future reforms by national authorities. In Asia, financial reforms were already accompanied by a significantly strengthened supervisory approach and safety net arrangements, which served to check unfettered innovation and reckless risk-taking behaviours and promote strong incentives for prudent risk management. For these reasons, our banking systems have been resilient through the global financial crisis and have continued to remain strong since, despite continued risks in the global economy. As we contemplate the raft of reforms that will continue to occupy the global agenda in the next few years, our considerations should be to pursue domestic and regional solutions that will deliver a more resilient financial system without impairing the continuous provision of efficient financial services that are vital for our economies.

Let me conclude my remarks. While many challenges remain, Asia is at the cusp of experiencing significant collective economic growth and development. Asia should however significantly draw important lessons from the global financial crisis and recognise the implications of greater interdependence. In addition, the sovereign debt crisis in Europe relates not only to fiscal matters but to debt management which has significant implications for financial markets. While fiscal issues may remain a national matter, its financing and its broader consequences needs to be addressed. Given the positive environment in Asia, the opportunity needs to be taken to put in place the necessary arrangements to best address these challenges. The world is increasingly now looking towards Asia. With these enabling conditions, Asian economies would be better positioned to collectively strive and work towards achieving the shared vision of financial and economic integration that will not only unlock our potential but also enhance the prospects to contribute towards a more balanced and sustainable global economy.

EU-Malaysia Chambers of Commerce and Industry's (EUMCCI) Quarterly Financial Panel Discussion 2012 - "Islamic Finance: New Frontiers in Financing the Economy" Kuala Lumpur, 8 March 2012

Keynote Address by

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In this new phase of globalisation in which economies and financial systems are increasingly becoming more interconnected, we are seeing the emergence of several new trends in trade and investment flows. While there has been a slower expansion in world trade and investment flows in the aftermath of the global financial crisis, cross-border trade and investment activities among emerging economies have been increasing significantly. Asia is very much part of this changing pattern in world trade and investment activity. In Asia, strong domestic demand, supported by resilient financial systems and well developed financial markets have well intermediated these international flows.

The most pressing challenge confronting the current global economy is to generate growth and employment. It is particularly important for the crisis-affected economies that growth resumes and is sustained, while addressing fiscal imbalances, public and private sector over-indebtedness and the financial sector impairment, the solutions to which will most likely result in slower growth. While supportive domestic policies will thus be necessary to support the growth, also important is the potential growth that can be gained from trade and investment with other parts of the world.

For the countries in the ASEAN region, the partnership with the EU region has expanded steadily over time, and has continued to evolve and strengthen. There is significant potential to expand such trade and investment links between both the EU and ASEAN regions. Global corporations, including the EU and ASEAN multinational corporations (MNCs), have contributed to maximising the mutual benefits from such relationships. In Malaysia there are currently more than a thousand multinational corporations from more than 30 countries. Many are from the EU region. Initiatives that continue to lower the barriers between our respective regions are also set to strengthen the growth of such strategic partnerships.

It is my pleasure to be here at this Quarterly Financial Panel Discussion, organised by the EU-Malaysia Chamber of Commerce and Industry, to speak on the role that Islamic finance might have on facilitating greater trade and investment between our regions. Islamic finance, which was previously domestic-centric, is now increasingly providing financial solutions for cross-border trade and investment. Progressive liberalisation has facilitated the internationalisation of Islamic finance. This has been reinforced by the dynamic pace of innovation in Islamic finance that has widened the range of financial products and services. Islamic finance has thus become an increasingly important channel for the efficient allocation of funds across borders and the diversification of risks.

Islamic Finance: Financial Solutions for International Business

Despite an increasingly more challenging environment, Islamic finance has continued to expand its potential as a sustainable and stable form of financial intermediation. Its emphasis on the close link between financial transactions and economic activity has positioned Islamic finance to be well-anchored to serve the real economy. The adoption of profit- and risk-sharing, transparency and disclosure, and the universal ethical values of fairness which is implicitly embedded in the Islamic financial system provides the internal checks and balances. Embraced in its entirety, it enhances the prospects for sustainable economic growth and financial stability.
The resilience of the Islamic financial system is

also further strengthened by the international prudential standards and best practices that have now been introduced. These include the standards issued by the Islamic Financial Services Board since 2002 in the areas of capital adequacy, risk management, governance, and the conduct of business and supervisory process. The industry is also guided by international accounting standards that have been developed by the Accounting and Auditing Organisation for Islamic Financial Institutions since its establishment in 1990. In enhancing liquidity management in the Islamic financial system, the International Islamic Liquidity Management Corporation (IILM), which was established in 2010, is putting in place the mechanism that will facilitate effective liquidity management solutions through the periodic issuance of short-term Shariah-compliant financial instruments.

As the Islamic financial system transitions to becoming more diversified and comprehensive, it provides the spectrum of financial solutions that meet the different needs of the economy. Such financing products offered in Islamic finance also include syndicated financing, equity financing and venture capital. There are also a wide range of investment and treasury instruments, as well as fund and wealth management products for the management of portfolios of businesses. In terms of takaful, there is also a broad range of products, including takaful coverage for physical properties and assets of businesses, as well as protection for employees.

The growing significance of the international dimension of Islamic finance in this recent decade has witnessed its increasing role in bridging economies through the mobilisation and channelling of funds to productive investment activities across borders. Despite the challenging global environment and the increased uncertainties, the Islamic finance industry has continued to experience the double digit growth of 21 percent, and total Shariah-compliant assets have surpassed the USD1 trillion mark. There are now more than 600 Islamic financial institutions operating in more than 75 countries in both Muslim and non-Muslim jurisdictions. The emergence of new financial centres in Asia and the Middle East and their increased connectivity has strengthened the foundations for intra- and inter-regional linkages in trade and investments.

More recently, Islamic finance is also being introduced in the EU region. The establishment of Islamic finance in key financial centres, namely London and Luxembourg, presents opportunities for businesses in the EU to raise funds using Islamic financial instruments such as the sukuk, and to diversify investment portfolios with Islamic fund and wealth management products. The development of Islamic finance has also been initiated in several other European economies. Malaysia has entered into a number of collaborative arrangements in the areas of talent development and expertise, business linkages, and infrastructure development. To date, Malaysia has signed Memorandums of Understanding in the area of Islamic finance with the UK, France and Luxembourg.

The now well-developed existing Islamic financial markets, including the sukuk and Islamic money markets, have been particularly instrumental in intermediating funds in the Islamic financial system. It is fast becoming an important platform for international fund raising and investment activities that are generating increased cross-border flows. From an outstanding amount of USD33 billion in 2006, the sukuk market has expanded to USD180 billion as at end-2011.

The sukuk market brings with it many attractive value propositions for both issuers and investors. A central merit of the sukuk structure is that it is based on underlying assets that have an income stream. This therefore discourages over-exposure of the financing facility beyond the value of the underlying asset, given that the issuer cannot leverage in excess of the asset value. In addition, with the requirement that the financing must be channelled towards productive purposes, the risk exposure in sukuk is therefore to the project and not to the uncertainties or activities that have no economic benefits. This element not only contributes towards financial stability, but also offers investors another asset class for investment.
The demand for sukuk currently exceeds the supply, as the high level of surplus savings in Asia and the Gulf region spurs the strong demand. Although the size of the market

may seem modest by global standards, the sukuk market has been registering an average annual growth of 40 percent. The growth of the Islamic bond market in particular, in the current environment also reflects its cost effectiveness. An increasing number of multilateral agencies, Government agencies and the corporate sector including multinational corporations have relied on the sukuk market as a source for raising financing. In Malaysia, Shell MDS Sdn. Bhd. issued the world's first ringgit-denominated corporate sukuk in 1990, amounting to RM125 million. The issuance of a RM3.5 billion programme sukuk by TESCO Stores in 2007 witnessed the first sukuk issuance by a British owned MNC, while Toyota Capital Services, a Japanese MNC, issued a RM1 billion programme in 2008. There has also been a growing trend for multi-currency sukuk issuances in Asia, with the latest landmark issuance of the world's first renminbi sukuk issuance in 2011 being issued in the Malaysian market. These multi-currency issuances have attracted international investors to participate in this market.

As an asset class, there are now a wide range of structures, size and different maturities. Recent examples in Malaysia include the PLUS Berhad's issuance of a record size of RM30.6 billion or equivalent to USD9.7 billion programme, with maturities ranging from 5 to 27 years. This also facilitates the potential for diversification of portfolios. The Islamic capital market has also been an avenue for businesses to raise equity financing globally. Shariah-compliant corporations that are listed in major global Islamic stock market indices, such as the Dow Jones Islamic Market Indices and the FTSE Global Islamic Index, are able to enhance their profiles among the prospective investors, including those with inclination towards socially responsible investment. In Malaysia, similar listing opportunities are available through the FTSE Hijrah Shariah index and the FTSE Bursa Malaysia EMAS Shariah index for Shariah-compliant investment, that has been designed to provide a broad benchmark for investors that wished to invest in Shariah-compliant stocks. Malaysia operates a dual financial system that comprises the conventional and the Islamic financial system. Businesses are able to select the financial offerings that best serve their requirements. While Malaysia has progressively liberalised our financial system, the liberalisation of the Islamic financial system has been at a more rapid pace. The motivation for this is to forge greater international economic and financial linkages. Liberalisation of the conventional sector has been more gradual and sequenced to ensure that the financial system promotes balanced growth while remaining stable and sustainable. The robust legal and regulatory framework, together with the availability of a large and diverse pool of talent and expertise in Islamic finance, forms the solid components in the system to meet the requirements of businesses.

There is also Shariah certainty in Islamic finance through a robust Shariah governance framework, which comprises Shariah committees at the industry level and the Shariah Advisory Council at the regulatory level. Malaysia's supportive framework and process for sukuk origination and sukuk listing also facilitates the issuance process of ringgit or non-ringgit denominated sukuk in our market. Efforts to deepen the sukuk market have provided significant opportunities for participation in this market, with the size of the Malaysian sovereign and corporate sukuk outstanding growing threefold from a total of RM120 billion in 2005 to RM353 billion as at end-2011. The market has also drawn the interest of foreign participation for their financing and investment activities. Key in the development of Islamic finance in Malaysia has been its progressive internationalisation and the introduction of more innovative Shariah-compliant financial solutions that meet the increasingly more complex and diverse international business requirements.
Let me conclude my remarks. In serving the needs of the real economy, Islamic finance offers a comprehensive and competitive solution in meeting funding and investment requirements of businesses. Given its international outreach and dimension, and ability to provide a total financial solution, Islamic finance is now at the frontier in which it presents new opportunities to support the economy and overall financial stability. Today's dialogue session would serve to provide a greater understanding and appreciation on Islamic finance and its potential for the intermediation of finances for international businesses.