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The MIFC eNewsletter

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## NEWS IN BRIEF

### Dr Zeti Honoured with Industry Leadership Award

Bank Negara Malaysia Governor Dr Zeti Akhtar Aziz was honoured with the 'Industry Leadership Award' at The Asset Triple A Awards 2010 for Islamic Finance which was held in Kuala Lumpur in early July 2010. According to The Asset, "In her ten years in office as Central Bank Governor, she (Dr Zeti) has proven herself to be a tireless promoter of Islamic finance in Malaysia and abroad. Through her guiding hand, Malaysia succeeded in building what is now described as the most conducive regulatory and macro-economic environment for Islamic finance that will ensure sustainable growth for the industry."

Malaysia was also voted 'Islamic Finance Hub of the Year', while Bursa Malaysia also won the 'Market Innovation Award' for the Bursa Suq Al-Sila Commodity Murabahah Platform. Other Malaysian winners included CIMB Islamic Bank which won the 'Islamic Bank of the Year' Award and the 'Islamic Investment House of the Year' Award; Maybank Islamic which won the 'Islamic Retail Bank of the Year' Award; and AmIslamic Funds Management, which won the 'Islamic Asset Management House of the Year' Award. The 1Malaysia Development Berhad RM5 billion 30-Year Islamic Medium Term Notes, lead arranged by AmInvestment Bank, won the 'Most Innovative Deal/Best Deal - Malaysia' Award and Kuwait Finance House won the Islamic Finance Research House of the Year.

### SC Names New Shariah Advisory Council Members

The Securities Commission Malaysia (SC) has appointed a new Shariah Advisory Council (SAC) comprising eleven members who will serve for a period of two years effective 1 July 2010. The SAC is the central authority responsible for determining Shariah principles pertaining to the Islamic capital market in Malaysia.

The appointment of the eleven SAC members was officially announced by the Yang di-Pertuan Agong following amendments to the Capital Markets and Services Act 2007 (CMSA), which came into force on 1 April 2010.

Pursuant to the amendments, the SAC is now empowered to make rulings on any Shariah matter relating to Islamic capital market business or transaction referred to it by any court, arbitrator, industry participant or other parties.

SC Chairman Zarinah Anwar said the SAC has been instrumental in the development of innovative Islamic products and services, and played a key role in transforming a niche growth sector into a core component of the Malaysian capital market. "These recent amendments to the CMSA reflect the SAC's significance and are expected to further strengthen the development of the Islamic capital market in Malaysia and enhance its position as an international centre for Islamic finance," she added.

The eleven members of the SAC are:

Abdul Hamid Mohamad, Former Chief Justice of the Federal Court, Malaysia;  
Sheikh Ghazali Abdul Rahman, Shariah Legal Advisor, Attorney General's Chambers;  
Md. Hashim Yahaya, Very Distinguished Academic Fellow of Ahmad Ibrahim Kulliyah

### Malaysia's Royal Award for Islamic Finance

The initiative launched last month by Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SC) in support of the MIFC initiative, which aims at honouring "outstanding contribution of an exceptional individual in Islamic finance" has received royal endorsement in July 2010.

Upon the recommendation of the Malaysian Government, His Majesty, the Yang di-Pertuan Agong of Malaysia, has given his consent for the Award to be named "The Royal Award for Islamic Finance".

The royal patronage will certainly add prestige to the Award. This is the first time that a major recognised financial centre has spearheaded a prestigious Award in the Islamic finance space. The award winner will be announced on 25 October 2010 and His Majesty the Yang di-Pertuan Agong of Malaysia will present the Award to the winner at a gala dinner in Kuala Lumpur.

Dr Zeti Akhtar Aziz, Governor of Bank Negara Malaysia and Chairman of the MIFC Executive Committee stressed: "We are honoured to be bestowed the royal recognition for the Award on its inception. Islamic finance, inspired by universal ethical principles and driven by the real value propositions that it contributes to the economy that is appreciated by all, has become one of the fastest growing segments in international finance. It is timely for Malaysia to recognise individuals who have contributed towards shaping the global Islamic finance."

A special taskforce, headed by Zarinah Anwar, the Chairman of SC, was established to spearhead the implementation of the award. "We hope in time this award will be regarded as a global benchmark in identifying the exceptional individuals who have inspired the development of Islamic finance worldwide," added Chairman Zarinah.

Unlike the commercial awards in the Islamic finance industry that are based on deals, this award is unique as it focuses on the individuals' record of achievement and outstanding contribution towards the development and advancement of Islamic finance globally. An independent international jury, chaired by the former Malaysian Deputy Prime Minister and Chairman of the World Islamic Economic Forum (WIEF) Foundation Musa Hitam, will select the deserving individual. The 7-member jury comprises:

- Musa Hitam (Chairman);
- Abdul Hamid Mohamad, former Chief Justice of the Federal Court of Malaysia and member of the Shariah Advisory Council (SAC) of BNM and SC;
- Professor Dr. Volker Nienhaus, former President of University of Marburg, Germany;
- Professor Dr. Abbas Mirakhor, former Executive Director of the IMF and Holder of the First INCEIF Chair in Islamic finance (2010);
- Dr. Mohamed Ali Elgari, Professor of Islamic Economics at King Abdul Aziz University, Saudi Arabia;
- A. Riawan Amin, Chairman of the Indonesian Association of Islamic Banks; and
- Dr. Yahia Abdul-Rahman, Founder, Chairman and CEO of LARIBA Bank of Whittier, USA

The MIFC initiative in July 2010 also unveiled the Award's logo, which is in the shape of 5 diamonds. The diamonds represent the five pillars of Islam as well as the principles of Islamic finance which are: good governance, transparency, fairness, faith and risk-sharing.



Nominations for the Award closed on 15 July 2010. For more information on the Award, please visit [www.mifc.com/award](http://www.mifc.com/award)

### Governor Zeti Urges Islamic Finance Industry to Recognise Change and to Remain Competitive

Bank Negara Malaysia (BNM) Governor, Dr Zeti Akhtar Aziz, has called on the global Islamic finance industry to recognise the forces of change and the transformation taking place in the international financial system and global economy and to continue to evolve to remain effective and competitive.

Dr. Zeti was addressing guests at The Asset Triple A Awards for Islamic Finance Annual Luncheon which was held in Kuala Lumpur in early July 2010. In her speech entitled "The Global Islamic Financial Market Today: Challenges and Way Forward", she stressed that the Islamic financial system does not exist in isolation and will continue to develop as an integral part of the global financial system.

Two important developments are the establishment of a Task Force on Islamic Finance and Global Financial Stability and a Task Force on Liquidity Management by the Islamic Development Bank (IDB) and the Islamic Financial Services Board (IFSB).

The first Task Force published a Report in April this year which recommended the establishment of an Islamic

Academic Fellow of Ahmad Ibrahim Kulliyah of Laws, International Islamic University Malaysia;  
Dr. Abdul Halim Ismail, Executive Director of BIMB Securities Sdn. Bhd;  
Dr. Mohd. Daud Bakar, Chairman, Shariah Advisory Council of Bank Negara Malaysia and CEO of Amanie Business Solutions Sdn. Bhd.;  
Associate Professor Dr. Shamsiah Mohamad, Lecturer, Department of Fiqh and Usul, Academy of Islamic Studies, University of Malaysia;  
Professor Mohammad Hashim Kamali, Founding Chairman and CEO of the International Institute of Advanced Studies, Malaysia;  
Professor Dr. H. Fathurrahman Djamil, Vice Chairman of Fatwa Commission of Indonesian Council of Ulama;  
Assistant Professor Dr. Aznan Hasan, Department of Islamic Law, Ahmad Ibrahim Kulliyah of Laws, International Islamic University Malaysia;  
Ahmad Suhaimi Yahya, Chief Officer and Regional Head of Shariah, Kuwait Finance House (Malaysia) Berhad;  
Rafe Haneef, Managing Director, Global Markets, HSBC Amanah.

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### **Malaysian PM Accords 'Project of National Interest' Status to INCEIF**

Malaysian Prime Minister, Mohd Najib bin Abdul Razak, in his capacity as the Minister of Finance, accorded in June 2010 the "Project of National Interest" status to INCEIF University in recognition of its role in the development of the human capital for Malaysia's growing Islamic finance industry.

The Status is granted retrospectively from 2007 to 2016, and according to Bank Negara Malaysia Deputy Governor, Muhammad Ibrahim, the status allows organisations and individuals who donate funds to INCEIF University, the post-graduate Islamic education arm of Bank Negara Malaysia (BNM), to offset their contributions through tax deductions.

INCEIF regularly receives Zakat and other donations from supporters including financial institutions and individuals. Last month, for instance, at a mock cheque exchange ceremony held at BNM and attended by Deputy Governor Muhammad Ibrahim and INCEIF Governing Council Chairman Dr Rozali Mohamed Ali, the university received a total of RM250,000 of Zakat contributions from three banks - Affin Islamic Bank Bhd, Bank Islam Malaysia Bhd and Maybank Islamic Bhd.

Since its inception in 2006, INCEIF has received contributions totalling RM909,146 from a number of local and foreign financial institutions, which have been channelled into two funds - the Financial Assistance Fund and the Fisabilillah Trust Fund. The latter specifically accepts only Zakat contributions from organisations and individuals.

The above funds are used to subsidise the tuition fees of selected students of INCEIF's three programmes which are the Chartered Islamic Finance Professional (CIFP), the Masters in Islamic Finance and the PhD in Islamic Finance. Funds are also used for research and development at INCEIF.

To date, RM798, 240 or 88 percent of the total amount received has been disbursed to 251 deserving Malaysian and foreign students based on their academic results and potential contribution to the Islamic finance industry locally and globally. The international recipients of the funds include those from Indonesia, Singapore, South Korea and India.

Past contributors to the INCEIF trust funds include Bank of Tokyo-Mitsubishi UFJ Ltd, CIMB Islamic Bank Berhad, EONCAP Islamic Bank Bhd, Etiqa Takaful Bhd and Securities Commission Malaysia.

### **UOB Asset Management and OSK-UOB Unit Trust Management Launch Islamic Fund Management JV in Malaysia**

The Securities Commission Malaysia has granted a Capital Markets Services Licence (CMSL) to OSK-

Financial Stability Forum (IFSB) based at the IFSB as a platform for productive dialogues to promote financial stability in Islamic financial system, and for it to interface with the conventional system via the Financial Stability Board to facilitate the common objective of achieving global financial stability.

The second Task Force charged with the mandate to develop a liquidity management scheme at both national and international level is expected to make key announcements later this year to facilitate cross border liquidity flows for efficient resource utilisation by Islamic financial institutions.

Dr Zeti is confident that Islamic finance will continue its progress upwards and onwards. "An important aspect of the recent developments to strengthen Islamic financial services industry is that this is being undertaken during the stable and good times. This will position Islamic finance to deal with future challenges. A clear indication of that is the growing relevance and importance of the sukuk market", she added.

She commended the rapid progress of the industry over the last decade - Islamic assets total over USD1 trillion, and are estimated to reach USD2 trillion in the next few years. Sukuk are now internationally-acceptable instruments. Issuers are seeing the sukuk instrument as an alternative means for raising capital, whilst investors are increasingly seeing it as a new asset class.

The sukuk market totals about USD130 billion, with a growth rate of about 40 percent annually. Despite a challenging environment, new issuance of sukuk in the global sukuk market rose by 43 percent to US\$20 billion in 2009. However, developments in Europe resulted in a more cautious market and the global sukuk issuance declined by 20 percent in the first half of 2010. "In the coming period, this trend", said Dr Zeti, "is expected to improve as the Governments in Asia and the Middle East have already initiated the raising of funds for the implementation of infrastructure development and investment projects."

The extensive interest in Islamic finance from different parts of the world too is driving the international dimension of Islamic finance, with greater involvement of international and regional financial centres, multinational corporations, micro enterprises and ordinary customers.

Similarly, organisations such as the IFSB have developed prudential standards ranging from capital adequacy requirements to standards for governance and risk management for the global Islamic finance industry, and there has been a proliferation of education and courses in Islamic finance offered by major institutions of higher learning and training organisations from around the world. There has also been progress in greater convergence in Shariah interpretations between jurisdictions which is bound to enhance the potential for product harmonisation and cross-border transactions.

Dr Zeti highlighted the challenges faced by the Islamic financial industry. Despite the fact that the funds managed in the Islamic financial system are still only a fraction of the total assets of the international financial system, they are uniquely supported by underlying productive economic activity and capacity that connects with the real economy as required by Shariah principles and contributes to income and wealth creation. Not surprisingly, the Islamic financial industry has weathered the global financial crisis relatively well, and this has thus brought about a greater appreciation amongst the international financial community on the distinct nature and in-built strengths of Islamic finance.

In addition, the profit sharing and risk sharing characteristics in Islamic finance strengthen the incentives for the financial institutions to ensure the profits are commensurate with the risks being assumed. "It is this form of finance", emphasised Dr Zeti, "that we would want to encourage".

Another two major challenges are the development of an active secondary global sukuk market and human capital to sustain innovation and R&D in the industry.

There has been a lack of trading in the secondary market especially in the USD sukuk market as the investors tend to buy-and-hold the instruments until maturity. This is largely due to the scarcity of the instruments in the market. But in Malaysia, the growing ringgit sukuk market has resulted in an active secondary market. This is largely due to the regular and varied issuances throughout the year, which is further supported by investment in R&D and in human capital development to ensure the next generation of expertise in structuring sukuk and documentation.

"This is an area of focus in Malaysia to develop the skills, expertise and capability. The Islamic financial system in Malaysia now offers a wide range of financial products and services that are competitive and able to meet the changing requirements of the domestic and global economy," she concluded.

### **Cagamas Launches Innovative Sukuk ALIm in Collaboration with Al Rajhi Bank**

Cagamas Berhad, the National Mortgage Corporation of Malaysia and leading securitisation house, launched a 'first-of-its-kind' Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm) in July 2010 in Kuala Lumpur in a ceremony witnessed by the Malaysian Deputy Finance Minister II, Senator Dr Awang Adek Hussin and BNM Deputy Governor Muhammad Ibrahim.

The sukuk, which took over a year to develop was structured in collaboration with Al Rajhi Bank Malaysia, and was issued under Cagamas's RM5 billion Islamic Commercial Paper (ICP) and Islamic Medium Term Note (IMTN) Programmes have a tenure of seven and thirty years respectively.

The structure marks a collaboration between Cagamas, the second biggest issuer of debt instruments in the country after the Government of Malaysia, which carry the highest credit rating of "AAA" from rating agencies, RAM Rating Services (RAM) and Malaysian Rating Corporation (MARC), and one of the top sukuk issuers in the world, and Al Rajhi Bank.

"Sukuk ALIm, is tradable in the secondary market and since preclude certain principles which may be contentious to Shari'ah, is expected to meet the requirements of a wider range of investors" explained Ahmed Rehman, CEO of Al Rajhi Bank Malaysia. "It also meets the Shariah standards of the Bahrain-based Accounting and Auditing Board for Islamic Financial Institutions (AAOIFI).

Whilst there had been an emergence of more diversified sukuk such as mixed asset sukuk or sukuk istithmar, explained Cagamas, "this new Sukuk ALIm structure is a type of sukuk Istithmar but precludes the principles of Inah (sale and buyback), Bai' Dayn (trading of debt) and Wa'ad (undertaking)."

As such, the Corporation stresses that the Sukuk ALIm could set the benchmark for future sukuk issuances, particularly those targeting the Middle East markets, and paves the way for greater cross-border issuances between the Middle East and Malaysia and other activity in the Islamic capital market.

The issuance may also see much greater Middle East involvement in future Cagamas Islamic commercial paper programmes.

Cagamas President and CEO, Steven Choy emphasised at the launch that, "Sukuk ALIm marks an important

Capital Markets Services Licence (CMSL) to OSK-UOB Islamic Fund Management Berhad (OSK-UOB IFMB), a 30:70 joint venture between UOB Asset Management Ltd (UOBAM) and OSK-UOB Unit Trust Management Berhad (OSK-UOB UTM). The licence authorises OSK-UOB IFMB to carry out Islamic fund management business in Malaysia and brings the number of dedicated Islamic fund management companies licensed in Malaysia to thirteen.

OSK-UOB IFMB, which has a paid-up capital of RM10 million, plans to launch innovative Islamic financial products to serve the growing market demand of local and foreign investors for such products.

The JV is based in Malaysia because it is one of the world's leading Islamic finance hubs. OSK-UOB UTM has also been present in Malaysia for many years. Not surprisingly, the company, according to Ho Seng Yee, Chief Executive Officer, "has been witnessing close up the many exciting new opportunities and developments on the Islamic finance front for our investors. We are happy to be part of a joint venture with an established asset manager like UOBAM and we hope to grow OSK-UOB IFMB into a leading Islamic finance asset manager for retail and discretionary investment mandates over time."

UOBAM, which manages 50 unit trusts in Singapore with total assets of S\$3.01 billion, has also built up a track record in developing and managing Islamic mandates and products. However, through this joint venture, stresses Thio Boon Kiat, Managing Director and Group Chief Investment Officer, UOBAM, "by leveraging on the well-established asset management and distribution network capabilities of UOBAM and OSK-UOB UTM, we will be able to scale up our resources and commitment to offer a wider, more comprehensive and innovative set of Islamic investment solutions and opportunities which will better serve our clients."

The new JV plans to offer a range of products including Shariah-based equity funds, balanced funds, Sukuk funds, money market funds, feeder funds and index funds.

#### DID YOU KNOW

Did You Know that Malaysia cemented its position as the world's top issuer of sukuk with 313 issuances worth USD15.45 billion for the first half of 2010? (Source: IFIS Global Sukuk Market H1-2010 Report)

#### CONTACT US

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milestone for Cagamas as it is not only widely accepted and tradable in the secondary market but also meets the most discerning investors' Shariah requirements. We are confident that the innovative Sukuk ALIm will further set a new benchmark in Malaysia's sukuk industry."

Al Rajhi Bank Malaysia and RHB Investment Bank have been appointed as Joint Principal Advisers and Joint Lead Arrangers for the Sukuk Programmes. Al Rajhi Bank and Amanie Business Solutions Sdn Bhd are also the Shariah advisors to the issuance. The Joint Lead Managers are Al Rajhi, RHB and the UK's Royal Bank of Scotland (RBS).

Since its incorporation in 1986, Cagamas has cumulatively issued RM242.76 billion of conventional and Islamic debt securities. It was established to finance affordable mortgages for Malaysians. Since then the Corporation has diversified into becoming the leading securitisation house in Malaysia, and to promote the secondary mortgage market there. It issues debt securities and sukuk to finance the purchase of housing loans and other consumer receivables from financial institutions and non-financial institutions. The provision of liquidity at a reasonable cost to the primary lenders of housing loans encourages further financing of houses at an affordable cost, stresses Cagamas. So successful has the Cagamas model been that the World Bank regards it as the most successful secondary mortgage liquidity facility.

Cagamas has been very active thus far in the sukuk market this year. In late May 2010 it issued its second sukuk - a RM300 million 5-year sukuk, which will be redeemed at their full nominal value on maturity, and which will be listed and tradable under the Scripless Securities Trading System. According to Cagamas, the sukuk are unsecured obligations of the Company, ranking pari passu among themselves and with all other existing unsecured obligations of the Company.

In early May 2010 Cagamas issued a RM1.06 billion Cagamas Debts Securities comprising RM1 billion 1, 2 & 3-year sukuk and RM60 million 3-month Conventional Commercial Paper (CCP). The issuances follow other issuances by Cagamas in 2010 which include a RM500 million 5-year sukuk in April 2010; RM500 million Cagamas Debt Securities comprising RM120 million Islamic Commercial Papers (ICP) and RM380 million Islamic Medium Term Notes (IMTN) - all on the same basis as above.

#### Nomura Launches Debut USD100m Sukuk Al-Ijarah Out of Malaysia

Japan's Nomura Holdings, Inc. issued the first US dollar-denominated sukuk for a Japanese multinational corporation originated out of Malaysia in July 2010 with a debut 2-year USD100 million sukuk Al-Ijarah. The sukuk is issued under the framework of the Issuance of Foreign Currency-Denominated Bonds and sukuk in Malaysia.

The issuance, which has Kuwait Finance House (KFH) Malaysia as the mandated lead arranger, is also listed on Bursa Malaysia, and becomes the second foreign listing on the bourse and the first Sukuk listing by an Asian and a Japanese international entity.

Takumi Shibata, Deputy President and Chief Operating Officer of Nomura Holdings, stressed that "with this landmark transaction, Nomura has further diversified its funding sources and tapped the large and growing Islamic finance market for the first time. This issuance is part of Nomura's ongoing push to diversify its funding sources to drive growth. Islamic investors and Islamic finance are a very important and rapidly growing sector globally and this transaction is highly significant for Nomura and for corporate Japan. Nomura has now opened the way for other Japanese corporations to tap the Islamic finance market, and we believe that the transaction will lead to significant benefits for Nomura and for our clients and partners."

The book for the issuance was opened on 5<sup>th</sup> July and closed the next day, according to Jamelah Jamaluddin, CEO, KFH Malaysia. "I am pleased to inform you that this sukuk marks Nomura's first step in diversifying its funding sources to include Islamic financial solutions. It involves financing the purchase of two aircrafts. I hope that Nomura's sukuk will pave the way for more discerning Japanese clients, as well as other international corporations, to consider migrating or co-opting Islamic finance products in meeting their investment and financing requirements," she explained at the listing ceremony.

The issuance demonstrated the strength of Islamic financial products, and according to Jamelah, the KFH Group is keen to leverage its huge resources, global network and expertise in the sukuk and Islamic capital markets to partner with major institutions and conglomerates in reaching out to investors in the Middle East, the UK, Europe and Asia Pacific. Indeed, KFH sees the partnership with Nomura as a good opportunity for the Group to reach out to Nomura's global customer base and create more awareness and interest in Islamic finance.

"KFH's investment appetite is healthy, and with our capital increase, we are ready to embark on alliances to accelerate the development of Islamic finance in the region. The KFH Group is in a very strong financial and liquidity position, and potential investments in Malaysia and the Asia-Pacific region are high on KFH's radar screens," she added.

Jamelah commended Bank Negara Malaysia (BNM) for developing Malaysia as an international Islamic financial hub in support of the Malaysia International Islamic Finance Centre (MIFC) initiative as the centre for sukuk origination globally.

At the Nomura sukuk listing signing ceremony, Yusli Mohamed Yusoff, Chief Executive Officer of Bursa Malaysia explained that Malaysia remains the world's single most active corporate sukuk market at present. "We certainly have made great strides in the sukuk market and the listing of Nomura's sukuk is further demonstration of foreign players' confidence towards Islamic securities and instruments issued out of Malaysia. The sukuk listing from Nomura will further strengthen Bursa Malaysia as a preferred sukuk listing destination, elevating the overall position of Malaysia as an international Islamic financial hub," he emphasised.

With this listing, Bursa Malaysia's total sukuk listings amount to USD20.9 billion comprising 15 sukuk listed by 13 issuers, of which two are international issuers.

#### Reliance Malaysian Subsidiary Set to Launch Innovative Islamic Funds

India's largest asset management company, Reliance Capital Asset Management (RCAM) with USD 33 bn under management and part of the Reliance Anil Dhirubhai Ambani Group, is the latest global fund company to target Malaysia as its Islamic finance hub.

RCAM has embarked on a global Islamic asset management strategy through its wholly-owned Malaysian Islamic subsidiary, Reliance Asset Management (Malaysia) Sdn Bhd (RAMMY), which received a licence from the Securities Commission Malaysia (SC) last August 2009.

Over the next few months RAMMY seeks to launch a series of innovative and differentiated Shariah-compliant funds - starting with a quantitative global equity fund, and an India country fund.

"Our Malaysian company will be the flagship venture in the Islamic asset management business and a global hub for Shariah-compliant products. The long-term objective is to target the retail Shariah market in the region. This



runs alongside the strategy to expand our fund management footprint across key global markets," said Mr Vikrant Gugrani, CEO, International businesses, Reliance Capital. RCAM is part of Reliance Capital.

"We have proven skills in quantitative equity management and the experience of our parent company in the field of Indian equity management is unmatched. At first we will build on these skills and expand the product base as we add to our team", explained Ian Lancaster, Chief Executive Officer of RAMMy.

Not surprisingly, RCAM is in recruitment mode. It appointed Ian Lancaster as its CEO earlier this year. Mr Lancaster ran the top performing Norwich Income Opportunities OEIC for over 5 years and was founder manager of the first UK specific Shariah Unit Trust seeded by a division of Axa Assurance. The company is expanding its team and will soon be employing a leading fund manager to head its Islamic fixed income business.

RCAM and RAMMy are targeting conventional and Islamic asset management opportunities in Malaysia involving both government-linked companies (GLCs) and the private sector.

In January this year, the SC and the Securities and Exchange Board of India (SEBI) signed a landmark 'India - Malaysia Capital Market Collaborative Agreement' in the presence of Malaysian Prime Minister Mohd Najib Tun Abdul Razak, who was on an official visit to India, and his host Indian Prime Minister Dr. Manmohan Singh. The Agreement is aimed at strengthening regulatory co-operation between SC and SEBI further, including among others examining the establishment of a framework for mutual recognition in key segments of the capital market to facilitate enhanced cross-border market oversight and exchange of technical knowledge.

As part of its global strategy, RAMMy already has an agreement with SFM in Luxembourg to access its Umbrella Fund Structure domiciled in Guernsey. This incorporates both conventional and three Shariah-compliant funds. RAMMy has been appointed as the investment manager for SFM's Reliance Global Shariah Growth Fund which was launched on 1 July. The other two Islamic funds include a MENA Fund and an Emerging Market Fund are managed by Markaz and by CIMB-Principal Islamic Asset Management Sdn Bhd respectively.

"In general Shariah-complaint funds will be managed out of Malaysia by RAMMy. For the India Fund given our excellent Group resources the investment manager will be a local company with RAMMy as Shariah Advisor to the Fund," explained Mr Lancaster.

The Reserve Bank of India (RBI), the central bank in India, recently circulated a White Paper on Islamic Finance inviting comments on whether the RBI should open the market to Islamic finance companies based in India to offer products in the local market.

Mr Lancaster states that "Islamic finance is a serious niche business for Reliance. Our parent company has made a significant strategic investment in gaining a licence in Malaysia and committed considerable resources in setting up a flagship stand alone subsidiary. We want to do it the right way, we want to specialise in the Islamic asset management space, rather than being a conventional asset manager launching Islamic funds. Over time we aim to demonstrate that we have the Islamic finance capability and the world class investment skills to create a sizable business and help establish Malaysia as the global hub for Islamic asset management."

#### **SC Forum Urges Knowledge Sharing in ICM**

The Securities Commission Malaysia (SC) held its 4th International Islamic Capital Market Forum in Kuala Lumpur in early July 2010 under the theme of "Sukuk: Transferring Best Practices" which was aimed to accentuate the value of sharing knowledge and experience from key jurisdictions.

The forum attracted an array of local and foreign participants from the banking and Takaful industries, fund managers, regulators, Shariah advisors as well as academicians.

In her welcome address, Zarinah Anwar, the Chairman of the SC, emphasised that the global financial crisis underscored the interconnectedness of markets. "The sharing of learning and the transfer of knowledge through ties with other markets," she maintained, "is important. Lessons learned and shared can help mitigate the risk of contagion which can be devastating to world economies. At the regulatory level, cooperation and exchange of information have been greatly intensified in recent years". However, sometimes markets become so entrenched in trying to move forward on their own.

In the wake of the financial crisis, the sukuk market saw a lull in activity fueled by the tightening of liquidity. A number of statements with regard to certain sukuk structures being against the spirit of the Shariah also impacted negatively on the market.

The debate, she reminded, was on whether the asset tied to the sukuk could be at a pre-determined price (creating a guarantee, which is unacceptable in Islamic law) and whether the sukuk was actually asset-backed rather than asset-based. The latter issue is one that poses legal challenges to issuers and investors in respect of the legal claim to the underlying assets.

"The challenges to do with the rights of investors and their claim on assets, and the responsibility of issuers to act in a fair and transparent manner," she explained, "do not just lie with the issuing agencies; they also have to do with jurisdictions and the laws of the land. Many jurisdictions have made amendments to the law to help the sukuk market grow while the laws in many other jurisdictions remain to be changed".

The SC Chairman stressed the need for common standards and methodologies for analysis to enable sukuk to migrate from being assessed by way of due diligence to being assessed through standardised financial analysis.

The range of sukuk instruments available to investors in Malaysia is unparalleled and these issuances come from a broad spectrum of issuers. The recent issuance of the 1Malaysia Sovereign Sukuk led to overwhelming demand with the issue being oversubscribed by almost six times, and with investors coming from the Middle East, Asia, the United States and other regions; making the issuance a truly global one. This, stressed Chairman Anwar, reinforces the acceptability of sukuk as a viable investment alternative notwithstanding the challenges raised earlier.

The product advantage of sukuk is the Shariah compliance process which results in additional disclosures relative to conventional corporate bond issuances. As such, multi-layered securitizations (like CDOs) which are complex and lacking in clarity would not pass the Shariah screening process. A great deal of contractual ambiguity surrounded these instruments that fed the worst of the global financial crisis. It is the prohibition on undue ambiguity in contracts that excluded these types of instruments in Islamic finance.

Iqbal Asaria of Afkar Consulting Limited, stressed the pressing need of a cross border regulatory framework. He identified 3 types of arbitrage - regulatory, tax and Shariah - that could possibly hinder the robust growth of global sukuk market. Cross-border regulatory framework, he suggested, needed to be streamlined to address such concerns.

Ferzana Haq of international law firm, Norton Rose, argued that the resolutions in sukuk disputes would be

influenced by the provisions of Shariah as well as the applicable civil law. She noted that in Malaysia, amendments to the Capital Markets and Services Act 2007 (CMSA) which came into force on 1 April 2010, and the Central Bank of Malaysia Act 2009 (CBA), which make the respective Shariah Advisory Council decisions binding on the courts, serve to provide greater consistency and clarity to market players and consumers.

Mohammad Faiz Azmi, Chairman of the Malaysian Accounting Standards Board, said that financial reporting is based on the nature of economic transactions regardless of conventional or Shariah attributes. Thus, he concluded that there could be harmonization of standards in accounting treatment for both conventional and Shariah transactions without the need for major changes to the existing accounting standards.

Dr Aznan Hassan who is a member of the Shariah Advisory Council of Bursa Malaysia maintained that a strong Shariah governance framework is the backbone of Islamic banking and finance. He stressed that a robust Shariah governance framework ensures confidence in not only sukuk but other Islamic products as well.

Sheikh Faizal Manjoo of the Markfield Institute of Higher Education in the UK suggested that future innovation in sukuk should utilise partnership oriented structures like Musharakah or Mudarabah. He argued that such structures would be more connected with the underlying economic activity whilst being reflective of the actual risk-reward sharing principle of Islamic finance.

The consensus amongst the participants was that the sukuk market will continue to develop further and assume greater relevance in providing alternative sources of financing to the conventional markets.

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