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Good take-up rate for Islamic debt securities

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THE healthy take-up rate of Malaysia's US\$600 million (US\$1 = RM3.80) Islamic debt securities is seen as an endorsement from the international investment community for the country's Islamic financial products.

The paper, launched at 7pm in Kuala Lumpur on Tuesday, is believed to have been twice over subscribed even as the market went into uncertainty this week following Prime Minister Datuk Seri Dr Mahathir Mohamad's decision to step down later next year.

A foreign news report says Malaysia has drawn some US\$1.1 billion in orders for the US\$600 million paper.

The report states that US\$450 million of the demand comes from Asian investors, while US\$150 million comes from Europe. The other US\$50 million came from US investors.

"More than anything, the paper has effectively achieved the international Islamic community's endorsement that its underlying principle is within the definition of "halal", said a vice president of fixed income trading at a foreign bank.

"Before this, there used to be a perception that a bond that comes from the West Asia is more Islamic than those from Malaysia," added the banker.

Analysts said the good response towards the Islamic sovereign debt paper could precipitate the country's role as Islamic financial centre, and it could act as a benchmark for local Islamic corporate debt securities internationally.

Islamic papers make up 42 per cent of overall private debt securities in Malaysia currently.

Malaysia which is competing with Bahrain to be the centre of Islamic finance had earlier been chosen to house the Islamic Financial Service Organisation, a body to develop common standard and regulations for Islamic financial institutions.

According to Bank Negara Malaysia governor Tan Sri Dr Zeti Akhtar Aziz, the debt paper was the world's first Islamic sovereign paper to be rated.

Currently, it is rated "BAA2" by Moody's Investors Service and "BBB" by Standard & Poors, and is listed both on the Luxembourg Stock Exchange and Labuan International Financial Exchange.

"This is significant for Malaysia as it shows the country's leadership in the area of developing global Islamic finance," she said yesterday.

The five-year paper is issued at a price of 95 basis points more than the London Inter-Bank Offered Rate of 1.97 per cent.

The cost of raising funds is estimated to be around 2.9 per cent.

While there was earlier concern that the Prime Minister's resignation announcement may affect the paper's performance, the later press conference on succession plans coupled with Moody's announcement on possible rating upgrade for Malaysia defused the worry.

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