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KL poised to become Islamic financial hub (HL)

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MALAYSIA is set to become the regional hub for Islamic financial services with the official inauguration of the Islamic Financial Services Board (IFSB) tomorrow by Prime Minister Datuk Seri Dr Mahathir Mohamad.

The IFSB's secretariat will be based in Kuala Lumpur and Malaysia has also been given the honour to host the first meeting of the IFSB Council and the board's general assembly to be held during the two-day launch.

The IFSB is an association of central banks, monetary authorities and other institutions responsible for the regulation and supervision of the Islamic financial services industry.

The Islamic banking and financial services industry has been growing rapidly in the past few years, both in Malaysia and globally.

Today, assets of the Islamic banking sector in Malaysia account for 8.8 per cent of the whole banking system's assets of about RM65 billion, up from 6 per cent a year ago. In the private debt securities market, 51 per cent of the total value of papers issued are Islamic-based.

Worldwide, including the US, Europe and West Asia, there are more than 200 Islamic financial institutions with combined assets of about US\$170 billion (US\$1 = RM3.80).

One floor of the Bank Negara Malaysia building has been cleared to house the IFSB secretariat temporarily. Its own premises will be built on a plot of land near the Tun Abdul Razak Memorial in the city.

"The IFSB will create awareness among both Muslim and non-Muslim nations around the world on the existence of Islamic financial instruments in the region," a local economist told Business Times in Kuala Lumpur.

"It will also disseminate information on the Islamic way of investing, banking, capital markets and other Islamic financial instruments," he added.

Bank Negara Governor Tan Sri Dr Zeti Akhtar Aziz has been appointed chairman of the IFSB's steering committee.

During the launch, the Articles of Agreement of the IFSB will be signed by the nine founding members. They are Kuwait, Malaysia, Saudi Arabia, Indonesia, Iran, Sudan, Pakistan, Bahrain and the Saudi Arabia-based Islamic Development Bank (IDB)

In addition, seminars and forums will be held. Speakers include Pakistan Finance and Economic Affairs Minister Shaukat Aziz, Islamic Development Bank (IDB) president Dr Ahmad Mohamed Ali and Bank of Sudan Governor Dr Sabir Mohammed Hassan. Others are from the Labuan Offshore Financial Services Authority, the Institute of Islamic Understanding Malaysia, JP Morgan Chase, McKinsey & Co, and Standard and Poor's.

The formation of the IFSB, previously known as the Islamic Financial Services Organisation, is the culmination of a two-year effort initiated by a group of governors and senior officials of central banks together with the IDB.

Also lending their support were the Accounting and Auditing Organisation for Islamic Financial Institutions and the International Monetary Fund.

The establishment of the IFSB is in response to the growing significance of the Islamic financial services industry. It is tasked with setting up international standards for Islamic financial instruments.

The IFSB's objectives include disseminating, harmonising and promoting best practices in the regulation and supervision of the industry.

It is also expected to fast-track the development of the global Islamic

capital market, and formulate and develop standards for the regulation of Islamic financial institutions worldwide.

The board will devise and disseminate standards and core principles in compliance with Syariah (Islamic legislation) for adoption by member countries.

The board will be governed by a council of governors nominated by the founding members and chaired on a rotation basis in alphabetical order of the member countries.

The IFSB will cooperate with other standards-setting organisations in the areas of monetary and financial stability, and promote good practices in risk management through research, training and technical advisory services.

Malaysia set up its first Islamic financial institution in 1963 in the form of the Pilgrims Fund Management Board, or Tabung Haji.