

**SPEECH BY
YAB DATO' SERI ABDULLAH BIN HAJI AHMAD BADAWI
AT THE ISLAMIC FINANCIAL SERVICES BOARD ANNUAL MEETING AND
GLOBAL ISLAMIC FINANCE FORUM
AT KUALA LUMPUR CONVENTION CENTRE (KLCC)
27 MARCH 2007**

BISMILLAHIR RAHMANIR RAHIM

ASSALAMUALAIKUM WARAHMATULLAHI WABARAKATUH AND GOOD AFTERNOON

TAN SRI DR. ZETI AKHTAR AZIZ
GOVERNOR, CENTRAL BANK OF MALAYSIA

EXCELLENCIES AND DISTINGUISHED PANELISTS

HONOURED GUESTS

LADIES AND GENTLEMEN

1. ALHAMDULILLAH, ALL PRAISE BE TO ALLAH S.W.T., BY WHOSE GRACE AND BLESSINGS WE ARE ABLE TO GATHER HERE TODAY. LET ME EXTEND A WARM WELCOME TO OUR GUESTS AND PARTICIPANTS. I AM INDEED PLEASED THAT MALAYSIA HAS BEEN ENTRUSTED TO HOST THIS YEAR'S ISLAMIC FINANCIAL SERVICES BOARD ANNUAL MEETINGS, AND IN CONJUNCTION WITH THIS, TO ALSO ORGANISE THE GLOBAL ISLAMIC FINANCE FORUM.

2. THESE EVENTS ARE AN IMPORTANT PLATFORM FOR THE EXCHANGE OF VIEWS ON THE FUTURE DIRECTION AND DEVELOPMENT OF THE ISLAMIC FINANCIAL SERVICES INDUSTRY. IT IS MY HOPE THAT THE SHARING OF KNOWLEDGE AND EXPERIENCE AMONGST THE PARTICIPANTS GATHERED HERE WILL CONTRIBUTE TOWARDS THE ADVANCEMENT OF ISLAMIC FINANCE.

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3. THE DEVELOPMENT OF A COMPREHENSIVE AND ROBUST INTERNATIONAL FINANCIAL SYSTEM – ONE WITH THE NECESSARY DEPTH AND BREADTH – IS IMPORTANT TO SUPPORT INTERNATIONAL TRADE AND INVESTMENT. IN THIS CONTEXT, THE EMERGENCE OF A VIBRANT ISLAMIC FINANCIAL SERVICES INDUSTRY REPRESENTS A SIGNIFICANT DEVELOPMENT IN THE INTERNATIONAL FINANCIAL LANDSCAPE.

4. ISLAMIC FINANCE PROVIDES A VIABLE MEANS OF MOBILISING FUNDS FOR INVESTMENT AND FINANCING IN CONFORMITY WITH SYARIAH REQUIREMENTS. THE UNIVERSAL CHARACTERISTICS OF ISLAMIC FINANCE HAVE NOT ONLY DRAWN PARTICIPATION FROM THE MUSLIM COMMUNITY, BUT HAVE ALSO ATTRACTED THE PARTICIPATION OF NON-MUSLIMS. ITS FOUNDATIONS IN THE PRINCIPLE OF EQUITY, WHICH PROMOTES PROFIT AND RISK SHARING BETWEEN PROVIDER AND RECIPIENT OF FUNDS, AND WHICH PROMOTE SOCIALLY RESPONSIBLE FINANCING, ARE FEATURES THAT HAVE WIDE APPEAL, BOTH AMONG MUSLIMS AND NON-MUSLIMS.

5. ISLAMIC FINANCIAL SERVICES CAN ALSO ENHANCE ECONOMIC LINKAGES BETWEEN COUNTRIES AND REGIONS, PARTICULARLY AMONG MUSLIM NATIONS. THIS CAN ENHANCE FINANCIAL PARTNERSHIPS AND ENCOURAGE INDEPENDENCE FROM RECURRING INTERNATIONAL AID AND ASSISTANCE. INTRA-REGIONAL TRADE AMONG MUSLIM COUNTRIES – WHICH CURRENTLY ONLY STAND AT 10 PERCENT OF TOTAL TRADE OF MUSLIM COUNTRIES – CAN BE RAISED AND UPGRADED. SIMILARLY, INVESTMENT FLOWS CAN BE ENHANCED, SUCH THAT WEALTH GENERATED IN A NUMBER OF MUSLIM COUNTRIES CAN BE CHANNLED TO COUNTRIES IN NEED OF FINANCIAL RESOURCES FOR GROWTH AND DEVELOPMENT.

6. SINCE ITS INCEPTION ALMOST THREE DECADES AGO, THE NUMBER OF ISLAMIC FINANCIAL INSTITUTIONS WORLDWIDE HAS INCREASED EXPONENTIALLY, REACHING ACROSS MORE THAN 75 COUNTRIES. TOTAL ASSETS OF THE ISLAMIC FINANCIAL SYSTEM ARE ESTIMATED TO EXCEED ONE TRILLION U.S. DOLLARS WITH AN ESTIMATED ANNUAL GROWTH OF BETWEEN 15 TO 20 PERCENT. ALTHOUGH STILL SMALL IN COMPARISON TO THE CONVENTIONAL FINANCIAL SYSTEM, THERE IS EVIDENCE OF STRONG DEMAND FOR ISLAMIC FINANCIAL PRODUCTS IN THE GLOBAL MARKET, WITH REQUIREMENTS FAR EXCEEDING SUPPLY.

7. IN THE GLOBAL ISLAMIC BOND, OR SUKUK MARKET, THE ISSUANCE OF ISLAMIC INSTRUMENTS HAS ALREADY SURPASSED THE FIFTY BILLION U.S. DOLLAR MARK. THE POTENTIAL OF THIS MARKET CAN BE SEEN WHEN WE CONSIDER THAT FUNDING NEEDED FOR INFRASTRUCTURE PROJECTS IN THE MIDDLE EAST AND ASIA ALONE IS EXPECTED TO EXCEED FIVE HUNDRED BILLION U.S. DOLLARS. WITHOUT A DOUBT, THIS IS A TIME OF RAPID GROWTH FOR ISLAMIC FINANCE, AND WE WILL CERTAINLY SEE MORE VOLUME, MORE PLAYERS AND MORE PRODUCTS IN THE VERY NEAR FUTURE.

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8. IN A RELATIVELY SHORT SPAN OF TIME, WE HAVE OBSERVED CLEAR EVIDENCE OF THE VIABILITY AND UNIVERSALITY OF ISLAMIC FINANCE. TO FURTHER DEVELOP THE ISLAMIC FINANCIAL SERVICES INDUSTRY INTO A MAINSTREAM BUSINESS, POLICYMAKERS, REGULATORS AND MARKET PARTICIPANTS MUST WORK TOGETHER TO ENSURE THAT THE ISLAMIC FINANCIAL SYSTEM MEETS WITH ACCEPTANCE AT THE GLOBAL LEVEL.

9. IN THIS RESPECT, I WOULD LIKE TO STATE THAT MALAYSIA IS FULLY COMMITTED TO SUPPORTING THE DEVELOPMENT OF A COMPREHENSIVE ISLAMIC FINANCIAL SERVICES INDUSTRY. OUR FIGURES REFLECT THIS COMMITMENT. CURRENTLY, TOTAL ISLAMIC BANKING ASSETS HAVE INCREASED TO 133 BILLION RINGGIT, OR 38 BILLION U.S. DOLLARS, ACCOUNTING FOR OVER 12 PERCENT OF TOTAL ASSETS IN THE DOMESTIC BANKING SYSTEM. FOR TAKAFUL, ASSETS HAVE INCREASED TO ALMOST 7 BILLION RINGGIT, WHICH ACCOUNTS FOR 6 PERCENT OF THE INSURANCE MARKET. OUTSTANDING ISLAMIC PRIVATE SECURITIES NOW MAKE UP ABOUT 50 PERCENT OF THE DOMESTIC CORPORATE BOND MARKET. INDEED, AS THE PIONEER OF NEW SUKUK INSTRUMENTS, WE ARE PROUD TO SAY THAT 67 PERCENT OF SUKUK IN THE GLOBAL MARKET TODAY WAS ISSUED IN MALAYSIA.

10. TOGETHER WITH A NUMBER OF OTHER COUNTRIES, WE ESTABLISHED THE ISLAMIC FINANCIAL SERVICES BOARD (I.F.S.B.), WHICH IS MANDATED WITH THE DEVELOPMENT OF INTERNATIONAL PRUDENTIAL AND REGULATORY STANDARDS FOR ISLAMIC FINANCIAL INSTITUTIONS. THE ROLE OF THE I.F.S.B. IS A VITAL ONE

IN THE EFFORT TO EXPAND ISLAMIC FINANCE GLOBALLY. SOUND FRAMEWORKS AND GLOBALLY AGREED STANDARDS ARE ABSOLUTELY CRUCIAL TOWARDS THE GROWTH OF THE SECTOR – AND THE I.F.S.B. WILL NEED TO PROVIDE SOUND LEADERSHIP IN THESE AREAS. THE MEMBERSHIP OF THE I.F.S.B. HAS NOW REACHED 110 MEMBERS, REPRESENTING 21 COUNTRIES. AND AS ISLAMIC FINANCE GAINS IN IMPORTANCE, SO WILL THE I.F.S.B. RISE IN INTERNATIONAL STATURE.

11. FOR MALAYSIA, AN IMPORTANT AGENDA GOING FORWARD IS FOR THE COUNTRY TO BECOME A GLOBAL CENTRE FOR THE ORIGINATION, DISTRIBUTION AND TRADING OF ISLAMIC FINANCIAL INSTRUMENTS. SITUATED CENTRALLY IN THE ASIAN TIME ZONE, MALAYSIA AIMS TO BE AN INVESTMENT GATEWAY TO THE ASIAN REGION, SPECIALISING IN ISLAMIC FUND AND WEALTH MANAGEMENT, AND ALSO AS A TAKAFUL AND RE-TAKAFUL CENTRE. WITH GREATER DEVELOPMENT, MALAYSIA'S ISLAMIC FINANCIAL SYSTEM WILL DEEPEN ITS EXISTING LINKAGES TO OTHER INTERNATIONAL ISLAMIC FINANCIAL MARKETS, FACILITATING INVESTMENTS AND TRADE RELATIONS BETWEEN EAST ASIA AND THE MIDDLE EAST, WEST ASIA AND NORTH AFRICA.

12. RECOGNISING THE MASSIVE POTENTIAL OF ISLAMIC FINANCE, MALAYSIA HAS TAKEN CERTAIN STRATEGIC MEASURES TO ACCELERATE THE SECTOR'S GROWTH. FOR INSTANCE, AN EXECUTIVE COMMITTEE OF KEY GOVERNMENT OFFICIALS, REGULATORS AND INDUSTRY LEADERS HAS BEEN TASKED TO CREATE A MORE EFFECTIVE DELIVERY SYSTEM TO IMPLEMENT INITIATIVES TO SUPPORT THE ISLAMIC FINANCIAL SERVICES INDUSTRY. THIS CONCERNS A FULL RANGE OF MATTERS RELATING TO TALENT DEVELOPMENT, IMMIGRATION AND TAXATION ISSUES, AMONGST OTHERS. AN "EXECUTIVE GREEN LANE" HAS BEEN ACCORDED BY THE IMMIGRATION DEPARTMENT TO THE MALAYSIAN ISLAMIC FINANCIAL CENTRE (M.I.F.C.) SECRETARIAT TO HELP EXPEDITE APPLICATIONS BY EXPATRIATES FOR LONG-TERM EMPLOYMENT PASSES WITH MULTIPLE ENTRY VISAS. THIS WILL HOPEFULLY FACILITATE THE GREATER MOVEMENT OF TALENT AND EXPERTISE IN THE AREA OF ISLAMIC FINANCE IN MALAYSIA.

13. IN ADDITION, THE ISLAMIC BANKING, TAKAFUL, RE-TAKAFUL AND ISLAMIC CAPITAL MARKETS HAVE BEEN LIBERALISED TO ALLOW FOR THE ENTRY AND LICENSING OF NEW PLAYERS. BOTH FOREIGN AND LOCAL PLAYERS CAN NOW APPLY FOR A LICENSE TO CONDUCT BUSINESS IN INTERNATIONAL CURRENCIES, WHICH MAY ALSO BE SUPPORTED BY TAX HOLIDAYS. FUND MANAGERS MANAGING ISLAMIC FUNDS OF FOREIGN INVESTORS IN INTERNATIONAL CURRENCIES MAY ALSO ENJOY TAX BENEFITS. OPERATIONAL FLEXIBILITY IS ALSO GIVEN TO NEW LICENSEES IN ORDER TO ESTABLISH BRANCHES OR SUBSIDIARY UNITS.

14. TO DEVELOP THE SECTOR'S POTENTIAL EVEN FURTHER, THE GOVERNMENT HAS NOW TAKEN THE DECISION TO RELAX FOREIGN INVESTMENT COMMITTEE (F.I.C.) RULES TO ALLOW 100 PERCENT FOREIGN EQUITY OWNERSHIP IN ISLAMIC FINANCIAL INSTITUTIONS ESTABLISHED UNDER THIS ARRANGEMENT. SUCH INSTITUTIONS ARE ALSO ALLOWED TO ACQUIRE PROPERTIES FOR THEIR OWN USE, WHILE THE ACQUISITION OF PROPERTIES AND LAND FOR COMMERCIAL PURPOSES AS PART OF ISLAMIC FINANCING ACTIVITIES WILL ONLY BE SUBJECT TO A ONE-TIME APPROVAL. FINALLY, FULL STAMP DUTY EXEMPTION FOR TEN YEARS – BEGINNING THIS YEAR – HAS BEEN GRANTED ON FOREIGN CURRENCY INSTRUMENTS EXECUTED BY THESE PARTICIPANTS, AND ON INSTRUMENTS RELATING TO RINGGIT AS WELL AS FOREIGN CURRENCY ISLAMIC SECURITIES.

APPROVAL HAS BEEN GRANTED TO FULLY EXEMPT FROM WITHHOLDING TAX ANY PROFITS OR INCOME ON NON-RESIDENTS' INVESTMENTS IN NON-RINGGIT ISLAMIC SECURITIES, INCLUDING SUKUKS ISSUED IN MALAYSIA.

15. OUR ISLAMIC FINANCIAL SYSTEM WILL ALSO ADOPT A CONDUCTIVE STANCE ON SYARIAH INTERPRETATIONS AND PRACTICES, CONSISTENT WITH ITS INTERNATIONAL DIMENSIONS. IN THIS REGARD, IT WILL MUTUALLY RECOGNISE AND ACCOMMODATE THE VARIOUS JURISTIC REASONING THAT HAS BEEN APPROVED BY RECOGNISED SYARIAH ADVISERS. WHILE THIS FLEXIBILITY WILL BE PROVIDED TO FOSTER INNOVATION AND ALTERNATIVE SOLUTIONS, EFFORTS WILL CONTINUE TO BE DIRECTED TOWARDS BUILDING SYARIAH CONVERGENCE ON SOME LEVELS, WHICH ARE IMPORTANT TO REINFORCE UNITY, AS WELL AS DEVELOP TRADE AND INVESTMENT TIES. WE WILL CONTINUE TO ENCOURAGE ACTIVE DIALOGUE BETWEEN SYARIAH SCHOLARS FROM DIFFERENT REGIONS ON THE ISSUES AND CHALLENGES FACED BY THE ISLAMIC COMMUNITY WITH REGARD TO ASPECTS OF THE SYARIAH.

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16. IN ORDER TO FULFILL OUR OBJECTIVES CONCERNING THE DEVELOPMENT OF ISLAMIC FINANCE, IT IS IMPERATIVE THAT WE TRANSCEND GEOGRAPHY, RACE, CULTURE AND RELIGIOUS EDICTS. IN THIS MANNER, IT IS MY FERVENT HOPE THAT THE WORLD WILL SEE THAT ISLAMIC FINANCE IS NOT JUST FOR THE BENEFIT OF MUSLIMS. IN MY VIEW, ITS SIGNIFICANCE IS FAR WIDER AND NEEDS TO BE SEEN IN THE CONTEXT OF GLOBAL PEACE AND PROSPERITY, THUS OFFERING HOPE TO TRIUMPH OVER THE ODDS AND TO RESOLVE CONFLICTS CONFRONTING US.

17. INDEED, IT IS MY SINCERE WISH TO SEE ALL PARTICIPANTS AT THIS CONFERENCE FULLY UTILISING THE PLATFORM BEFORE US TO FURTHER PROMOTE ISLAMIC FINANCE FOR THE BENEFIT OF THE UMMAH, AS WELL AS THE GLOBAL COMMUNITY. THROUGH THE USE OF EFFECTIVE DIALOGUE AND COLLECTIVE REASONING, I BELIEVE THAT WE WILL BE ABLE TO ADVANCE TOWARDS OUR GOAL OF ESTABLISHING A CREDIBLE ISLAMIC FINANCIAL COMMUNITY IN THE YEARS TO COME, INSYA-ALLAH.

18. I PRAY THAT OUR EFFORTS WILL BE BLESSED AND REWARDED BY THE ALMIGHTY, AS WE WORK TO IMPROVE THE LIVES OF PEOPLE THROUGHOUT THE WORLD. ON THAT NOTE, I WISH YOU A SUCCESSFUL, ENGAGING AND PRODUCTIVE CONFERENCE AHEAD.

THANK YOU.