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Inthis decade, greater focus was particularly given to the institutionalarrangements to develop the sukuk market.

The sukuk market now accounts formore than fifty percent of Malaysia’s bond market. The market has drawn theparticipation from a wide range of international corporations and multilateralagencies in raising funds and investing in the sukuk issuances out of Malaysia. More recently, there has also been continuous innovation and an increasingnumber of issuances in foreign currency. As Malaysia offers internationalparticipation in the Islamic financial system, also offer to be aninternational gateway, particularly in strengthening the link between the twoimportant dynamic growth regions of Asia and the Middle East. Breakdown of GlobalSukuk Issues by Country for year 2010: Malaysia’ssukuk market started with a simple issue size of RM125 million by Shell MDSSdn.

Bhd.. in 1990 and is now growing in size and increasingly sophisticated. This development is evident in the largest sukuk issue recently valued atRM15. 4 billion (USD4. 7 billion) by Binariang GSM Sdn. Bhd. Now, the sukuk marketin Malaysia is among the fastest growing in the world, with an average annualgrowth of 22% issued for the period 2001-2007.

After introducing the firstsovereign global sukuk in the world in 2002, Malaysia has continued it successby introducing innovative sukuk structures such as convertible musyarakah sukukby Khazanah Nasional Berhad, the Malaysian government investment holding company. This is a historic issue of the first of its kind in the world, which combinesthe features of the first full convertibility is usually only used forconventional equity-linked transactions. Inthe area of capacity building, Malaysia has also given priority to two areaswhich is one is in human capital development and the second, in catalysingmutual recognition of Shariah interpretations. The International Centre ofEducation in Islamic finance (INCEIF) was established in 2006 for advancededucation for practitioners in Islamic finance, and in 2008, the InternationalShariah Research Academy (ISRA) was established to conduct applied Shariahresearch on the contemporary Islamic finance issues and to provide a platformfor active international engagement among Shariah scholars.

Malaysiawill also continue to collaborate with other regulatory authorities to ensurefinancial stability in the Islamic financial system. This will be throughMalaysia’s active involvement in the Islamic Financial Services Board, theIslamic Financial Stability Forum (IFSF), the initiatives by the IslamicDevelopment Bank, and finally in the newly formed International Islamic LiquidityManagement Corporation. Secondarytrading in the Malaysian sukuk market has increased the depth and liquidity ofthe market with the participation of more companies, including foreign-ownedcompanies continued use of this market for funding purposes. A large number ofcorporate issuance is to finance long-term funding needs. The diversity andsize of the sukuk transaction was the increasing value proposition is attractiveto investors who want to diversify their asset portfolios, thus creating avibrant secondary market. TheMalaysian sukuk market has also grown to become more innovative andsophisticated to meet the diverse risk-return profiles and requirements of bothissuers and investors.

The proliferation of new types of instruments withextended maturity profiles have generated a diversified range of players, bothlocal and foreign to participate in the market. This was facilitated by theliberalisation of the market in 2005 to allow for issuance of debt securitiesby foreign corporations and multilateral agencies in ringgit denominatedpapers. In 2007, this was extended to foreign currency denominated issuances. Indeed, this has attracted many foreign corporations, multinationalcorporations and multilateral agencies to raise funds and invest in issuancesand origination out of Malaysia, hence enhancing the Malaysian market, andstrengthening Malaysia’s inter-linkages with other international financialmarkets. Thedevelopment of the sukuk market in Malaysia has accompanied the transformationof the Malaysian economy that has now become more diversified and privatesector driven. The market, initially dominated by the Government debtsecurities, now reflects the growing demand for the long term financingrequirements of the private sector.

The corporate sector now raises 58% oftheir financing requirements through the debt securities and sukuk marketcompared to about 33% ten years ago. The presence of a deep and liquid debt securitiesand sukuk market thus contributes towards the stability of the financial system. Globalsukuk industry experienced impressive growth over ten years ago in Malaysia andis now the focus in the development of Islamic financial system rapidly. Sizeof the global sukuk market, including sukuk denominated in local currency, has increasedfrom USD336 million (RM1. 3 billion) in 2000 to an estimated USD82 billion (orRM281 billion) at the end of 2007, with average annual growth rate of 40%. However, the total sukuk issuance for 2007 is only worth USD 47billion (orRM161 billion), an increase of 73% of the total issued in 2006. Although theperformance is not as estimated because of the economic crisis, but the flow ofsukuk issuance seen more positively and surviving.

Sukuk also almost unique becauseit not only offered to Muslim investors but also to other conventionalinvestors. Accordingto sources IFIS, in 2010 shows that the global sukuk reached US47. 77 billion, an increase of 50% compared with the year 2009, which only reached US31.

93billion in the global market. As expected, Malaysia continued to dominate theissuance of sukuk in 2010 and became the leading position in the global sukukmarket, with 65% of total outstanding sukuk and 75% of primary issuance ofsukuk as at December 2010. Malaysiais the world’s largest sukuk market with a number of Malaysia’s sukuk issues by68. 9%, or USD62 billion (or RM213 billion) of total global outstanding at theend of 2007. Number of corporate sukuk in Malaysia more than RM30 billion in2007.

Malaysia will not only lead the development of the sukuk market in termsof total sukuk issuance, even in terms of the introduction of innovative sukukstructures and competitive to attract more investors. Movingforward, Malaysia will continue its efforts in strengthening the internationallinkages in the global Islamic financial system through collaborativepartnerships and cooperation with the objective of contributing towards greaterinternational financial and economic integration. No doubt, sukuk (Islamicbond) proved that it is among the most successful Islamic financial product inthe industry and be one of the fastest-growing sectors in the global financiallandscape. Challenges in SukukMarket: Thereare various forms of tax to be accounted for. For example, in the ECG sukuk, which was backed by oil and gas assets in the Gulf of Mexico, the structureutilised a funding arrangement that was heavily driven by US taxconsiderations. Legislation in some jurisdictions requires, in connection withthe conveyance of title in real estate or property transactions (which would berequired in the context of an Ijara wa iktinaa, or sale-leaseback structure), that the sale contract and the resulting title transfer be recorded in a realestate register and that a transfer of title fee or tax be paid. Problemssuch as lack of uniformity in procedures that had applied the principles ofshariah the lack of professional qualifications (lawyers, scholars andacademics) are experienced in both conventional and Shariah standards and lackof awareness among employers and apparently the manager of the sukuk is alsodifficult to implement. As a proactive measure, ethical standards of inspectionin accordance with shariah should be taken.

Prospectsfor the development of Islamic finance should contain a balanced development ofthe shariah and integrated market by the prospect of a unique Islamic finance. In addition, the products and services must also not limited to Muslim’s marketonly. But, also emphasizes acceptance and applications globally.

The creationof many innovations and initiatives have also contributed to the advancement ofIslamic financial system. However, the challenges can be overcome by increasedeffort in every cooperation, increase understanding of the shariah concern, mutual respect and collaboration practices.