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In this decade, greater focus was particularly given to the institutional arrangements to develop the sukuk market.

The sukuk market now accounts for more than fifty percent of Malaysia's bond market. The market has drawn the participation from a wide range of international corporations and multilateral agencies in raising funds and investing in the sukuk issuances out of Malaysia. More recently, there has also been continuous innovation and an increasing number of issuances in foreign currency. As Malaysia offers international participation in the Islamic financial system, also offer to be an international gateway, particularly in strengthening the link between the two important dynamic growth regions of Asia and the Middle East. Breakdown of Global Sukuk Issues by Country for year 2010: Malaysia's sukuk 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 at RM15.4 billion (USD4.7 billion) by Binariang GSM Sdn. Bhd. Now, the sukuk market in Malaysia is among the fastest growing in the world, with an average annual growth of 22% issued for the period 2001-2007.

After introducing the first sovereign global sukuk in the world in 2002, Malaysia has continued its success by introducing innovative sukuk structures such as convertible musyarakah sukuk by Khazanah Nasional Berhad, the Malaysian government investment holding company. This is a historic issue of the first of its kind in the world, which combines the features of the first full convertibility is usually only used for conventional equity-linked transactions.

In the area of capacity building, Malaysia has also given priority to two areas which is one is in human capital development and the second, in catalysing mutual recognition of Shariah interpretations. The International Centre of Education in Islamic finance (INCEIF) was established in 2006 for advanced education for practitioners in Islamic finance, and in 2008, the International Shariah Research Academy (ISRA) was established to conduct applied Shariah research on the contemporary Islamic finance issues and to provide a platform for active international engagement among Shariah scholars.

Malaysia will also continue to collaborate with other regulatory authorities to ensure financial stability in the Islamic financial system. This will be through Malaysia's active involvement in the Islamic Financial Services Board, the Islamic Financial Stability Forum (IFSF), the initiatives by the Islamic Development Bank, and finally in the newly formed International Islamic Liquidity Management Corporation. Secondary trading in the Malaysian sukuk market has increased the depth and liquidity of the market with the participation of more companies, including foreign-owned companies continued use of this market for funding purposes. A large number of corporate issuance is to finance long-term funding needs. The diversity and size of the sukuk transaction was the increasing value proposition is attractive to investors who want to diversify their asset portfolios, thus creating a vibrant secondary market. The Malaysian sukuk market has also grown to become more innovative and sophisticated to meet the diverse risk-return profiles and requirements of both issuers and investors.

The proliferation of new types of instruments with extended maturity profiles have generated a diversified range of players, both local and foreign to participate in the market. This was facilitated by the liberalisation of the market in 2005 to allow for issuance of debt securities by foreign corporations and multilateral agencies in ringgit denominated papers. In 2007, this was extended to foreign currency denominated issuances. Indeed, this has attracted many foreign corporations, multinational corporations and multilateral agencies to raise funds and invest in issuances and origination out of Malaysia, hence enhancing the Malaysian market, and strengthening Malaysia's inter-linkages with other international financial markets. The development of the sukuk market in Malaysia has accompanied the transformation of the Malaysian economy that has now become more diversified and private sector driven. The market, initially dominated by the Government debt securities, now reflects the growing demand for the long term financing requirements of the private sector.

The corporate sector now raises 58% of their financing requirements through the debt securities and sukuk market compared to about 33% ten years ago. The presence of a deep and liquid debt securities and sukuk market thus contributes towards the stability of the financial system. Global sukuk industry experienced impressive growth over ten years ago in Malaysia and is now the focus in the development of Islamic financial system rapidly. Size of the global sukuk market, including sukuk denominated in local currency, has increased from USD336 million (RM1.3 billion) in 2000 to an estimated USD82 billion (or RM281 billion) at the end of 2007, with average annual

growth rate of 40%. However, the total sukuk issuance for 2007 is only worth USD 47 billion (or RM161 billion), an increase of 73% of the total issued in 2006. Although the performance is not as estimated because of the economic crisis, but the flow of sukuk issuance seen more positively and surviving.

Sukuk also almost unique because it not only offered to Muslim investors but also to other conventional investors. According to sources IFIS, in 2010 shows that the global sukuk reached US\$47.77 billion, an increase of 50% compared with the year 2009, which only reached US\$31.

93 billion in the global market. As expected, Malaysia continued to dominate the issuance of sukuk in 2010 and became the leading position in the global sukuk market, with 65% of total outstanding sukuk and 75% of primary issuance of sukuk as at December 2010. Malaysia is the world's largest sukuk market with a number of Malaysia's sukuk issues by 68.9%, or USD62 billion (or RM213 billion) of total global outstanding at the end of 2007. Number of corporate sukuk in Malaysia more than RM30 billion in 2007.

Malaysia will not only lead the development of the sukuk market in terms of total sukuk issuance, even in terms of the introduction of innovative sukuk structures and competitive to attract more investors. Moving forward, Malaysia will continue its efforts in strengthening the international linkages in the global Islamic financial system through collaborative partnerships and cooperation with the objective of contributing towards greater international financial and economic integration. No doubt, sukuk (Islamic bond) proved that it is among the most successful Islamic financial product in the industry

and be one of the fastest-growing sectors in the global financial landscape. Challenges in Sukuk Market: There are 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 structure utilised a funding arrangement that was heavily driven by US tax considerations. Legislation in some jurisdictions requires, in connection with the conveyance of title in real estate or property transactions (which would be required 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 real estate register and that a transfer of title fee or tax be paid. Problems such as lack of uniformity in procedures that had applied the principles of shariah, the lack of professional qualifications (lawyers, scholars and academics) are experienced in both conventional and Shariah standards and lack of awareness among employers and apparently the manager of the sukuk is also difficult to implement. As a proactive measure, ethical standards of inspection in accordance with shariah should be taken.

Prospects for the development of Islamic finance should contain a balanced development of the shariah and integrated market by the prospect of a unique Islamic finance. In addition, the products and services must also not be limited to Muslim's market only. But, also emphasizes acceptance and applications globally.

The creation of many innovations and initiatives have also contributed to the advancement of Islamic financial system. However, the challenges can be

overcome by increased effort in every cooperation, increase understanding of the shariah concern, mutual respect and collaboration practices.