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Malaysian bankers push for Islamic finance to guide banking reforms

By Shannon Teoh

LONDON — The push for reforms to the global financial sector after the recent crisis would gain from studying the principles of Islamic finance, according to leading bankers from Malaysia, the premier hub for this sector.

CIMB group chief executive Datuk Seri Nazir Razak and Bank Muamalat chairman Tan Sri Munir Majid spearheaded a panel discussion on Islamic banking at the World Muslim Leadership Forum that detailed how the principles of strict collateral, profit and risk-sharing and real economic activity that underpin Islamic financial transactions would help to bring in the required ethics and into conventional financing where sub-prime financing was seen as a leading cause of the global collapse of the last three years.

At US\$86 billion (RM260 billion) of the current global value of Islamic finance estimated at about US\$1 trillion (RM3 trillion), Malaysia is the largest holder of such assets and accounts for over 60 per cent of all sukuk (Islamic bonds) issued since 2006.

The country would definitely play a leading role in any expansion of Islamic financing, and a role in shaping reform of conventional financing would push Malaysia into the global economic limelight.

Nazir, who heads Malaysia’s top dealmaker, said that if a “fundamental overhaul of global banking to return to its basic function of financial services that adds value and generally build a less crisis-prone and more robust financial system” was desired, then Islamic economics in general had much to offer.

“The current calls for greater democracy of finance argues for stronger linkages between finance and real economic activity and higher checks and balances and transparency; these are already demanded by Syariah governance,” he said.

He added that when discussing Islamic finance with conventional financiers, the issue of no riba (usury or interest) occupies the discourse.

However, he said that he was not advocating a take over of the world of finance by Islamic regulations but rather, that it should “step back from preconceptions and dogmatism” and move towards “educating future generations of bankers to place the community first and how to tame some of the animal instinct that you see on investment bank trading floors.”

“We are not trying to convert anyone to a religion but when we talk about being ethical and restraining excesses, solutions are already there in Islamic finance,” he told The Malaysian Insider later.

Munir, who also chairs Malaysia Airlines, also extolled the stability of Islamic finance and while he did not want to “dance on the grave of something that is not actually dead yet,” he said it was time that Islamic finance advance from its “slowly, slowly” approach and play a bigger role in the market.

Munir said that the political economy of global finance was a sensitive one but noted that Islamic finance was growing at over 20 per cent annually for the past few years and the potential for growth continued to be considerable as it is estimated that the 1.5 billion global Muslim population would grow to 2.5 billion by 2020.

On top of this, non-Muslims are also simply looking for the best product and with regards to loans and mortgages, they simply sought out the lowest cost product, he explained. Nazir also pointed out that in Malaysia, the fastest growing Islamic mortgage customers were Chinese.

Earlier in the day, Foreign Minister Datuk Seri Anifah Aman made an open offer to the Muslim world to tap into its knowledge and experience as the leader in this sector while Nazir also revealed that Malaysia has already been engaging non-Muslim majority countries like China, Japan and Australia to assist them in developing their own Islamic banking sector.

(Source: themalaysianinsider.com, 08 October 2010)

Saudi Arabia, Malaysia discuss Islamic finance

A Malaysia International Finance Centre (MIFC) delegation, headed by Raja Nazrin Shah, crown prince of Perak, visited Saudi Arabia recently to promote Islamic finance relations. The 33-member delegation included representatives of 17 Islamic banks and 12 Islamic fund management companies and some asset management firms, aside from Takaful operators, and legal and other professional services firms.

It included Tan Sri Zarinah Binti, chairman, Securities Commission, Malaysia; Mohammed Razif Abd Kadir, deputy governor of Bank Negara Malaysia; Danial Mah Bin Abdullah, deputy director general, Labuan Financial Services Authority; Khazanah Nasional and representatives of Bursa Malaysia, Affin Islamic Bank, Maybank Islamic, Amislamic Bank, Muamalat Malaysia, CIMB Islamic Bank and Al-Rajhi Baking & Investment Corporation (Malaysia). Also in the entourage were Raja Eleena Binti Raja Azlan Shah and her husband Farouk Abdullah.

Malaysian Consul General Hidayat Abdul Hamid said the delegation was in the Kingdom to introduce the MIFC to this part of the world and study the opportunities available specifically in the financial and investment sectors. "They would like to invite their Saudi counterparts to Malaysia for further interaction," he added.

Osama Fadaak of Attam Est. Commercial Services hosted a reception in honour of the crown prince and his entourage at his residence, which was attended by prominent Saudi businessmen and investors. Raja Nazrin, who is also the financial ambassador of MIFC, which is an initiative to position Malaysia as a hub for Islamic finance, and his delegation discussed bilateral issues and investment opportunities in both countries. The delegation also held discussions with high-ranking ministerial and financial agency officials in Riyadh. The research interests of the Perak crown prince, who has a rich academic and intellectual background including a PhD in political economy and government from Harvard University, are in the area of economic and political development in Southeast and North-east Asia, historical national income accounting and economic growth in developing countries. He has also written articles and spoken on a wide range of issues including the role of the constitutional monarchy in Malaysia, education, Islam, ethnic relations and economic development.

The discussions centered on promoting business and investment opportunities in Islamic finance in Malaysia, which is globally acknowledged for its highly-developed and diversified Islamic banking and financial market.

Delegation leader Yusry Yusoff, manager, MIFC Promotions Unit at Bank Negara Malaysia (central bank of Malaysia),

explained that the delegation was seeking to establish relationship with the key institutional investors in Saudi Arabia for potential investment opportunities including sukuk mandate, asset management, as well as interest to set up Islamic banking and Takaful business in Malaysia."

He said the MIFC was launched in August 2006 to position Malaysia in the forefront of Islamic finance. He added that the centre aims to strengthen the international linkages and capitalise the rapid development of the global Islamic finance industry. He explained that MIFC is a collaborative effort by Malaysia's financial and market regulators including Bank Negara Malaysia, Securities Commission Malaysia, Labuan Offshore Financial Services Authority and Bursa Malaysia (Malaysia stock exchange) together with industry participation from the banking, Takaful and capital market sectors in Malaysia.

One of the mandates of the Centre is to strengthen the international linkages in the global Islamic financial system with leading financial centres in the Gulf, especially Saudi Arabia. The discussions were envisaged to pave the way for cross border collaboration between MIFC and stakeholders in Saudi Arabia. The visiting Malaysian officials said Islamic finance is becoming mainstream and offers a viable solution to the global financial system. There has been emerging interest from key financial centres in London, Hong Kong and France. The delegation also highlighted the International Centre for Education in Islamic Finance, a university established by the Central Bank of Malaysia for focusing on development of talents for Islamic finance.

With the sukuk market acquiring going global dimensions market education and knowledge, especially of Islamic Capital Markets (ICM), becomes a necessity. This is met by the Islamic Markets Programme (IMP), which is held annually by the Securities Industry Development Corporation (SIDC), the training and development arm of the Securities Commission Malaysia (SC).

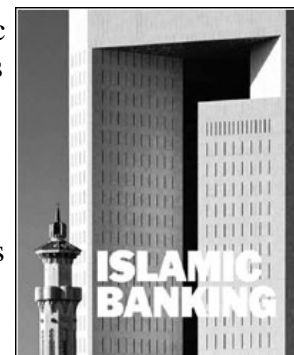
It aims at helping participants to analyse the philosophy and fundamentals of ICM and to distinguish between its various products; to evaluate Islamic equity, sukuk and derivatives as alternatives means of financing and investment to conventional products; and to assess the significance and essentials of corporate governance, risk management and sound regulation in promoting Islamic markets. So far, 175 participants from 27 countries all over the world, including Qatar, have participated in the programme.

(Source: Khaleej Times Online, 11 October 2010)

Four Principles of Islamic Finance - by Haris Zuberi

Islamic finance refers to a system of finance that is based on the principals of Islamic law (Sharia). As per the Sharia, the payment and the acceptance of interests for loans of money, lending money on interest (Riba), as well as investing in businesses that provide goods or services that are forbidden in Islam (Haram), are all prohibited.

The concept of Islamic finance is more accurately that money has no intrinsic value. It believes that since money has no value of its own, there should be no charge for its use. Although Islamic finance is as old as the religion itself, modern Islamic finance originated in the 1960's.



Some of the main principles of Islamic finance are as follows.

1. Prohibition on interest: As per the laws of Islamic finance the taking or the receiving of interest at exorbitant rates is prohibited. This however does not preclude a rate of return on investments.
2. Sharing of risks: As per the Islamic finance the risks involved in any transaction must be shared at least between two parties. This is so that the business risk gets shared between the party that is providing the capital and the entrepreneur, for a share in the profit.
3. Speculative behavior not permitted: Speculative behavior (Gharar) is prohibited. This implies that gambling and other such extreme uncertainty or risks are forbidden. That is why the disclosure of information and the contractual obligations are considered to be sacred duty as per the Islamic law.
4. Violation of the rules of Sharia is forbidden: All investments in businesses related to unethical things as per the Islamic law are forbidden. These businesses would include businesses related to alcohol, pork related products, conventional financial services and entertainment. Under entertainment would fall gambling and casinos, hotels, pornography and music. These are businesses that are advised against by Sharia boards. Some Sharia boards also object to investing in businesses related to tobacco, defense or weapons

Many experts have predicted that Islamic finance will grow further in the coming years. Thus is because of various reasons. One such reason is that Muslims worldwide are starting to choose those products that are compliant to the Sharia. These products were not available before but lately the increase in oil wealth is being channeled more into these products. Due to the growing competitiveness and the ethical focus of these products, they are drawing both Muslims and non Muslims.

(Source: <http://ifresource.com/>, 10 October 2010)



Analysis: Islamic finance seems overwhelmed by scholar reforms

By Liau Y-Sing and Frederik Richter

(Reuters) - Islamic finance is toughening supervision of its powerful religious advisers as shareholders worldwide demand increasing accountability from directors, but key reforms may do little to boost independence and transparency.

Islamic banking is overhauling rules that govern the conduct of its influential sharia advisers, with competition for investor dollars and a growing market putting pressure on the once-arcane industry to adopt clearer, more uniform guidelines.

Key to these challenges is the small number of scholars advising a growing number of banks on increasingly complex financing structures, raising issues such as transparency of rulings, independence of advisers and how to groom new scholars.

But varying sharia standards, different regulatory approaches and vast disparities in development across markets stand in the way of reforms to streamline and boost supervision, which are critical to growth.

"Investors want to see the same degree of responsibility and professionalism going into sharia compliance as they expect from Moody's for credit ratings and S&P for market information," said John Sandwick, a Geneva-based Islamic asset and wealth manager. Sharia advisers control the reins of the \$1 trillion industry through their rulings on whether financial products satisfy Islamic law. Their role has been in focus following a recent attempt by Kuwait's Investment Dar (TIDK.KW) to challenge its sharia board's decision.

Bahrain-based industry body AAOIFI is drafting rules to regulate sharia scholars' shareholdings in banks and address concerns such as the number of sharia supervisory boards on which a single scholar can effectively serve.

The International Sharia Research Academy for Islamic Finance, which is backed by Malaysia's central bank, is planning a global regulatory body for sharia advisers.

"This is a step too soon," said Ayman H. A. Khaleq, a partner and Islamic banking lawyer at Vinson & Elkins in Dubai, referring to the proposed global authority.

"I don't know how you're going to convince all governments that this is the best approach. Without convincing governments, how are you going to give teeth to that association?"



Sharia scholars, typically experts in Islamic law and international banking practices, are now subject to differing levels of supervision across the jurisdictions but experts think this model cannot sustain the industry's growth.

"Each industry player will come up with their own conflict avoidance and confidentiality provisions and you may find that some banks have higher standards than others so we will see issues in the future if we're not able to regulate well at this point," said Rafe Haneef, HSBC Amanah's managing director for global markets.

Reflecting the industry's diversity, Middle Eastern countries like the United Arab Emirates leave regulation to the industry whereas Malaysian authorities assume centralized control through national sharia advisers and dedicated Islamic banking laws.

Practitioners agree on the need for more supervision but differ on the scope of oversight needed.

Some say regulating the issuance of fatwa would stifle ijtehad, or scholars' reasoned judgment, and could stunt the growth of an industry which is still trying to come to terms with established conventional banking concepts like derivatives.

"You can standardize certain products that are a very cookie cutter, plain vanilla type," said Jawad I. Ali, global deputy head of lawyers King & Spalding's Islamic finance group.

"But there are a number of other products that haven't been developed yet (in Islamic finance) and you cannot standardize something that hasn't been developed."

Others point out that uniformity is hardly attainable, as markets range from Saudi Arabia's established sector to South Korea's infant industry.

"The biggest challenge is to have these rules to have some kind of enforceability," said Muddassir Siddiqui, a partner at lawyers Denton Wilde Sapté. "Islamic finance is in so many jurisdictions throughout the world. There are some jurisdictions which are very mature."

But Yazit Yusuff, OSK Investment Bank's Islamic banking head, sees scope for global cooperation.

"There are some meeting points for these sharia advisers, there are localized issues and there are globalised issues," he said. "Local issues such as inah (financing concept) should be left to local scholars."

(Source: <http://www.reuters.com/>, 28 September 2010)