

Opening Address by Dato' Azlan Hashim

"Labuan International Offshore Financial Centre (IOFC) Investment Route to Asia"

12 December 2006
Shangri La Hotel Kuala Lumpur

Ladies and Gentlemen

I am pleased to be here this morning to officiate today's conference 'Labuan – Investment Route to Asia' hosted by Labuan Offshore Financial Services Authority (LOFSA). Indeed, today's conference is special as it marks the closing of LOFSA's tenth anniversary celebrations. I am pleased to note that the conference has managed to attract more than 600 participants, which is a clear indication of the strong interest of the business community to know more about Labuan IOFC. The participation comes not only from Malaysia but also from other countries including Hong Kong, Japan, Singapore, Australia and Canada. For those who come from outside Malaysia, I wish you a warm welcome and I hope you will take the opportunity to also explore the many other attractions of Malaysia after the conference.

This conference is organised with the primary purpose to update both Malaysian and non Malaysian owned organizations on the activities, products and services available in the Labuan IOFC. Large corporations such as Khazanah, Petronas, Genting, MAS, Air Asia and Shell Bhd have for many years been taking advantage of the benefits and incentives that Labuan has to offer. However, the Labuan IOFC would like to see more companies, such as those entrepreneur-run companies listed on the Bursa Malaysia, to also be tapping on the advantages that the Labuan IOFC could offer to those that are involved in international business.

Ladies and Gentlemen,

Now more than a decade since its establishment, the Labuan International Offshore Financial Centre (IOFC) has evolved into a modern offshore

financial center that has matured and gained widespread international recognition. The development of Labuan IOFC is a long-term national agenda of the Malaysian Government. More than RM3 billion has been invested by the Government to provide the necessary infrastructure to facilitate offshore business and to meet the requirements of the offshore community in Labuan. Although Labuan is already well-endowed with many infrastructure and amenity facilities, the Government has continued to enhance the infrastructure not only for the IOFC industry but also for the tourism industry and other commercial activities in Labuan. The Government's strong commitment is further reflected by an allocation under the Ninth Malaysia Plan of some RM120 million for the future development of the Labuan IOFC.

The establishment of LOFSA in 1996, six years after the IOFC, was another strategic move by the Government to streamline the administration and supervision of the IOFC. Indeed, its establishment not only significantly reduced bureaucracy and expedited the administrative processes for the businesses in Labuan IOFC, but has also contributed towards the significant development and growth of the IOFC. In 1997, a year after the establishment of LOFSA, the number of offshore companies incorporated in Labuan increased to about a thousand, doubling the total in the first five years of the establishment of the IOFC. To-date, there are more than 5,500 companies registered in the Labuan IOFC.

The Labuan offshore financial center now provides the full range of financial services that include offshore banking, investment banking, insurance and insurance related services, investment holding, trust, fund management, leasing and Islamic finance. Today, Labuan is home to top-ranked international financial institutions that originate from more than 30 countries. It is important to note that financial institutions in Labuan are required to be physically present in Labuan, to ensure that Labuan IOFC is not just a brass-plate jurisdiction.

With 55 international offshore banks, 119 insurance and insurance-related companies, 79 leasing companies, 28 fund managers and 20 trust companies, Labuan IOFC offers a wide choice of services from leading international entities. These in turn offer a diversified range of innovative and high quality offshore products and professional services. In addition, the setting up of the Labuan International Financial Exchange (LFX) has further boosted the offshore business activities. A key component of the capital market, it allows for the listing and trading of financial instruments. The establishment of the LFX complements the various financial services and activities that are offered and available in Labuan IOFC. Since its first listing

in 2001 with market capitalisation of only USD250 million, the number of listings on LFX has grown to 31 instruments, comprising of investment funds, Islamic notes and debt securities that cumulatively have a total market capitalisation of USD13.5 billion. These instruments are issued by domestic and foreign financial institutions.

In the more recent times, the Labuan IOFC has developed as an active centre for Islamic finance, serving both the regional as well as other international clients. Labuan IOFC is fast becoming known as the home for innovative Islamic financial solutions. In terms of financial institutions, Labuan has three Islamic banks, three Islamic investment banks as well as two conventional banks with Islamic windows. The Labuan IOFC came to the forefront in Islamic product development with the issuance of the first global sukuk (Islamic bond) out of Labuan by a Malaysian conglomerate, and the sovereign sukuk by the Government of Malaysia. Both sukuk are listed on LFX. The issuance of these sukuk in Labuan been followed by the proliferation of global sukuk issued amounting to USD20 billion worldwide. Islamic fund management activities have also expanded in Labuan. Currently, there are eight Islamic funds in Labuan with a total fund size of more than USD600 million.

Ladies and Gentlemen,

Indeed, the capital markets in the IOFC offers strong potential for business growth and product innovation. The market is becoming more sophisticated with the introduction of structured products both in the conventional as well Islamic modes. Labuan will continue to capture the business of origination of these products with value-added elements integrated into these products. Some examples of the financial instruments that have been issued out of Labuan include guaranteed exchangeable Islamic notes amounting to USD750 million by a multinational company in Malaysia, and the sukuk trust certificates amounting to USD200 million for financing of a power plant in China.

In the area of Islamic insurance, the Asian Takaful Group, now known as Global Takaful Group or GTG, which was formed as a body to enhance greater co-operation among takaful operators in Brunei, Indonesia, Malaysia, Singapore, Sri Lanka and Saudi Arabia, is a global brand as the first takaful and retakaful organisation in the world. The GTG has now expanded to become the vehicle for business cooperation among Takaful companies in Asia, with Labuan acting as the secretarial centre. Currently, the GTG has more than 20 members from more than 6 countries and its membership is growing.

Having put in place the necessary Islamic financial infrastructure, the Labuan Islamic financial system is now well positioned to be integrated under the initiative to position Malaysia as an International Islamic financial centre (MIFC) that focuses on the origination, distribution and trading of Islamic capital market and treasury instruments, Islamic fund and wealth management, international currency Islamic financial services, and takaful and retakaful business. It will also have more diversified players with onshore and offshore capabilities, providing a comprehensive range of Islamic financial products and services for the international market.

The MIFC initiative would serve as a catalyst in promoting financial services in international Islamic currencies to be carried out from anywhere in Malaysia, making Malaysia a preferred choice in fulfilling the business and financial needs of the marketplace. The MIFC which is a national agenda by the Government, was launched amidst the backdrop of a strong domestic and offshore Islamic banking and financial system and regulatory regime. Operating within the robust and diversified Malaysian economy, stable political environment and a well established and comprehensive legal framework, this initiative would offer opportunities for foreign institutions to operate anywhere in the country and enjoy a multitude of fiscal and operational benefits. With regard to Labuan IOFC, greater flexibility is given to the offshore Islamic banks and the Islamic divisions of offshore banks and offshore takaful operators, including insurance companies with Islamic windows, to open operational offices anywhere in Malaysia. They could also apply to be exempted, with the approval of the Minister of Finance, from the necessity to maintain physical presence in Labuan, enabling them to be closer to the business and commercial community in Malaysia.

Ladies and Gentlemen,

A number of key factors accounted for the success that has been achieved by the Labuan IOFC. The conducive business environment, the efficient tax regime, and the competitive cost of doing business have been among the important factors. In addition, adequate legislation and the relatively well-developed physical infrastructure have also been important in facilitating this progress. To a major extent this has been made possible by the unwavering support and commitment by the Government. This support has been reinforced by a strong regulatory regime and supervisory systems that have been put in place by LOFSA to maintain confidence and to preserve the reputation of the offshore financial center.

In Labuan, there is a comprehensive legislation in place to protect the rights and interest of investors. This legislation is separate from the domestic financial regulatory framework to ensure that Labuan IOFC operates under

an independent regulatory regime, which is administered by LOFSA under the purview of the Ministry of Finance. Investors are assured of confidentiality and secrecy in their transactions in the offshore center in Labuan. The legal infrastructure in Labuan is comprehensive to deal with all aspects of financial activity. To supplement the regulatory framework of the IOFC, LOFSA has also introduced several guidelines covering the areas of corporate governance, sound operational requirements as well as anti-money laundering measures.

While the regulatory framework has been conducive for the conduct of business in Labuan IOFC, significant attention has also been accorded to strengthening the capability and institutional capacity of LOFSA to not only to ensure high quality financial regulation and supervision, but also to drive the development of the offshore financial market. LOFSA has recognised the need to avoid an excessively bureaucratic environment that result in undue regulatory burden and cost. Steps have been taken to improve the delivery system, in particular the efficiency of the approval process for applications under the various legislations of the Labuan IOFC.

To further enhance the business environment in Labuan IOFC, LOFSA has appointed experts to undertake a thorough review of the IOFC to ensure it is responsive to the changing times and dynamic business landscape. The world of IOFCs is a crowded one. There are more than 60 offshore jurisdictions in the world. Labuan IOFC therefore needs to be agile and innovative to stay competitive. In this regard, the governing laws, rules and regulations and tax regime will be periodically reviewed and changed. However, we would like to assure that any changes would only be implemented in consultation with relevant stakeholders including the offshore industries in Labuan. LOFSA will continue to adopt its pragmatic and consultative approach in its development.

One of the critical factors of success of the IOFC is promotional efforts abroad and in the domestic market. In this regard, LOFSA together with the offshore business community will continue to organize various road-shows and conferences such as this one.

Ladies and gentlemen

Today's conference, 'Labuan – Investment Route to Asia' is the first of a series of conferences to raise the awareness of the financial center to both Malaysians and non Malaysians. There will be similar conferences in the future to be conducted in this region and other parts of the world. LOFSA expects that these conferences will serve to further enhance the awareness

and visibility of Labuan IOFC as a regional financial centre catering to the growth of trade and investment within the Asia Pacific region.

On this note, I wish to take this opportunity to wish the conference every success.