ISLAMIC BONDS ISSUES: THE MALAYSIAN EXPERIENCE

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ABSTRACT

The paper is a review of the Malaysian experience in managing the issuance and development of Islamic bonds market. It was observed that Malaysia has begun with the issuance of loan-based Islamic bonds by the Malaysian government followed by the vast and extensive issuance of sale-based Islamic bonds by both government and private corporations. However, most of the Malaysian Islamic bonds issued to date have been based on the principles of *Murabahah* and *Al-Bai' Bithaman Ajil (BBA)* that can hardly obtain the acceptance and confidence of global investors especially from the Middle-East countries. Hence, the issuance of *Ijarah*-based global sovereign and corporate Islamic bonds (*Sukuk*) took place in 2002. In general, five key factors have been recognized to develop a more comprehensive Malaysian Islamic bonds market and accelerate the progress of Malaysia's venture into the international Islamic financial arena.

Keywords: *Sukuk*, Islamic bonds, Islamic private debt securities

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INTRODUCTION

The development of Malaysian Islamic Capital Market (ICM) is seen as a strategic measure in positioning Malaysia at the regional and global forefront and creating a competitive advantage for the country in the competitive global financial market dealings. Realizing the vast potential of ICM, the sixth objective of Capital Market Masterplan aims to establish Malaysia as an international Islamic capital market centre. As stated in many relevant literatures, Malaysia is internationally recognized for its advancement in the development of ICM despite of several issues raised. The Malaysian capital market consists of two main markets, namely the equity market dealing with corporate stock and shares, and the bond market dealing with public and private debt securities with maturities exceeding one year (BNM, 1999). The ICM operates in parallel to the conventional capital market and complements the Islamic banking and *takaful* systems in broadening and deepening the Malaysian Islamic financial system (SC, 2001).

ICM covers a number of segments and issues such as Islamic equity markets, Islamic bond market, Islamic unit trust funds, Islamic stock broking services, Islamic indices and Islamic venture capital. The focus of this humble paper, however, is on the Malaysian experience in managing the development and issuance of Islamic Bonds, locally terms as Islamic Debt Securities (IDS) issued by either Malaysian Government or private corporations. Several factors have been recognized as the main reasons to the commendable development of Malaysian Islamic Bond market. Perhaps, the issue of innovating globally recognized and accepted products, particularly by the Middle-East countries, is the most challenging in Malaysia's pursuit to be the most preferable Islamic financial hub.

The discussions will be organized as follow. Section 2 describes types of Islamic bonds in terms of their underlying Syariah principles. The following section briefs the growth of Islamic bonds vis-à-vis conventional bonds in Malaysia. Section 4 discusses the major developments took place in the Malaysian Islamic bonds market. Conclusion and recommendation are discussed in the final section.

THE CONCEPTS OF ISLAMIC BONDS

From the conventional point of view, the underlying relationship between the issuers of conventional bonds and their holders is simply a relationship between the debtors and creditors on loan-based contract where there are interest charges. Therefore, the Islamic *Fiqh* Academy has clearly declared in its Sixth Conferences[1] that the loan-based bonds are unlawful in Islam (Syibir, 1999).

Islamic bonds necessarily should not base on loan concept as loan contract is considered as a charitable contract where the creditor (perceived as donor) actually donates his potential opportunity of using the money to the debtor (Saadallah, 1994). The reward for waiting the debt payment cannot be materialized or capitalized in the form of interest charge in this world as the positive return on the loan given out to the debtor is not assured. It is not reasonable enough to impose a positive charge on the loan without any assurance that the loan will generate a positive cash inflow. However, the creditor is spiritually rewarded in view of the opportunity cost he incurred by giving out the loan for other's consumption. Therefore, the creditor deserves the reward from Allah in the hereafter as stated in a saying of the Prophet Muhammad PBUH (Peace Be upon Him).

From the author's viewpoint, Islamic bonds can be categorized – based on their underlying principles - into five major categories. They are:

(i) Loan-based bonds i.e. *Al-Qardh al-Hasan* (benevolent loan)-based bonds. This type of bond does not provide a financial return to its holders except the loan principal. Hence, it is totally not attractive to the investors. The Malaysian government firstly introduced this type of bond in order to facilitate the management of Islamic assets in the initial development stage of Malaysian Islamic banking system. However, this was only a temporary step and this type of bonds does not prevail anymore[2].

(ii) Sale-based bonds i.e. *Murabahah*[3]*, BBA (Al-Bai' Bithaman Ajil)*[4]*, Istisna'*[5], and *al-Wafa'*[6]. This theoretically reveals that the underlying relationship

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[1] This Sixth Conference of Islamic *Fiqh* Academy was held in Jeddah, Saudi Arabia from 17th to 23rd *Sya'ban* 1410H / 14th to 20th March 1990.

[2] Petronas Dagangan Berhad issued two IDS based on the concept of *al-qardh al-hasan* with detachable warrants in the forms of transferable subcription rights (TSRs) to the investors in 1994 and 1995. However, both have been criticized for possible non-compliance with the Syariah principles (Engku Ali, 2004).

[3] *Murabahah* refers to the sale of goods at a price which includes a profit margin agreed upon by both parties. Such a sale contract is valid provided that the price, other costs and the seller's profit margin are all stated at the time of the sale agreement. The *Murabahah* facility involves the purchase of assets by the financiers and the immediate sale of those assets back to the issuer with a mark-up agreed upon by both parties (Ismail, 2002).

between the bonds issuers and bondholders is a relationship between sellers and purchasers. Most of these sale-based bonds – not all - however render to the concept of *Bai' al-'Inah*[7] in practice. Through the operation of *Bai' al-'Inah*, the debt is created for the creditors on the debtors. Hence, these *Bai' al-'Inah*-based bonds are debt-based securities in nature. The sale of debt securities in the secondary market involve another controversial concept in Islamic jurisprudence i.e. *Bai' al-Dayn* (Sale of debt).

(iii) Lease-based bonds i.e. *Ijarah* (Lease) and *Intifa'* (Sub-lease). The *Ijarah* concept construes the bond issuers and bondholders as lessee and lessors respectively. This means that the holders of *Ijarah* bonds are the beneficial owner of the leased asset and lease charge. They shall receive the rental payments during the lease period and their principal at the end of the lease contract after the asset is sold at the original price (i.e. the face value of the bond issue) (LOFSA, 2002; SC, 2004). *Intifa'* bonds (*Sukuk*) come into the picture when sub-lease contract is involved.

(iv) Equity-based bonds i.e. *Musyarakah* (Profit-and-loss sharing) and *Mudarabah* (Profit-shaing). The relationship between *Musyarakah* bond (*Sukuk*) issuers and bondholders is a partner-to-partner relationship. In the other hand, *Mudarabah* bonds (*Sukuk*) conceptualize the relationship between bond issuers and bondholders as a relationship between entrepreneurs (*mudarib*) and capital providers (*rabb al-mal*). However, these two equity-based bonds are more risky in nature from the investors' viewpoint.

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[4] *BBA* contract refers to the sale of goods on a deferred payment basis. In the *BBA* facility, the issuer sells the assets to the financiers who immediately sell it back to the issuer with higher price (Ismail, 2002).

[5] *Istisna'* refers to a contract of acquisition of goods by specification or order, where the price is usually paid progressively in accordance with job completion progress (Ismail, 2002).

[6] *Bai' al-Wafa'* is a sale with a condition that when the seller pays back the price of goods sold, the buyer returns the good to the seller (SC, 2002).

[7] *Bai' al-'Inah* is defined as a type of sale whereby the seller sells his assets to the buyer at an agreed selling price to be paid by the buyer at a later date. Thereafter, the buyer immediately sells back the assets to the seller at a cash price, lower than the agreed selling price (SC, 2002).

(v) Mixed or hybrid bonds i.e. a combination of the previously stated contracts. Islamic Development Bank issued such type of Islamic bonds named as *Sukuk al-Istithmar* (Investment *Sukuk*) – worth USD400 millions - in July 2003. It is a combination of three contracts namely, *ijarah*, *murabahah* and *istisna'*, involving real assets and debt-based assets. It was contemplated that the *Ijarah* assets should constitute more than 50% of the portfolio at all times (Engku Ali, 2004).

"*Sukuk*" is the plural of "*sakk*" which means a document or certificate, which evidences the undivided pro-rata ownership of underlying assets (SC, 2004). In many circumstances, *Sukuk* is wrongly defined and translated as Islamic bonds. In fact, sale-based bonds – in most situations - could not be named as "*Sukuk*" as they represent the value of debt – not real asset - owned by the bondholders. The right term for debt-based Islamic bonds is "*sanadat al-dayn*". "*Sanadat*" or "*sanadat al-dayn*" are certificates represent the promise by the issuer to pay back the debt to investors (creditors) based on a pre-agreed date of settlement. Hence, sale-based bonds are rightly named as Islamic Debt Securities. However, Islamic sale-based bonds involve two controversial contracts that are hardly accepted by the Middle-east scholars and investors - where there are a substantial numbers of potential investors with a lot of funds – i.e. *Bai' al-'Inah* and *Bai' al-Dayn*. However, the jurisprudential discussion of these two contracts is not within the scope of this paper. It is enough to note that these two concepts are rejected by most Middle-East scholars and jurists.

ON THE RISE: PRIVATE (PDS) AND ISLAMIC PRIVATE DEBT SECURITIES (IPDS)

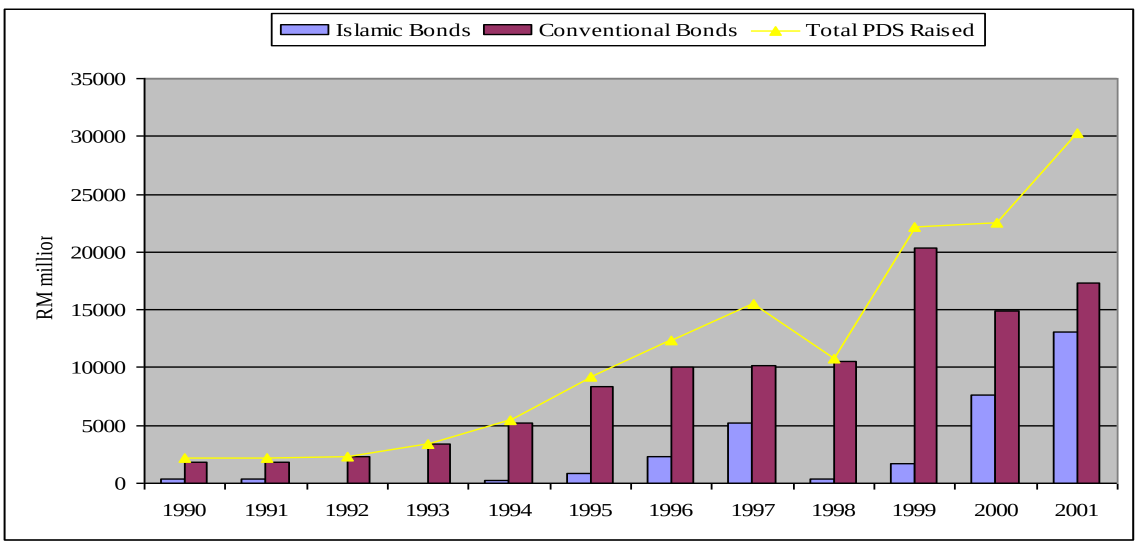
The Government's various initiatives and country's robust economic activity, as seen from the implementation of large infrastructure projects, propelled the rapid expansion of the Malaysian Private Debts Securities (PDS) market during the 1990s. This was reflected in the amount raised, which ballooned from RM2.2 billion in 1990 to RM30.3 billion in 2001. Nevertheless, fund raising via the PDS market contracted significantly to RM10.8 billion during the 1997/98 financial crisis (Table 1). Table 1 and Figure 1 illustrate the funds raised in the capital market via PDS (excluding Cagamas Bonds) and the proportions of Islamic and conventional PDS.

Table 1: Private Debt Securities issued (1990-2001)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Value (RM MIllionI												
Islamic Bonds	379	350	25	0	300	800	2350	5249	345	1734	7666	13028
Conventional Bonds	1824	1796	2244	3364	5206	8401	10034	10222	10487	20399	14884	17289
Total PDS Raised	2203	2146	2269	3364	5506	9201	12384	15471	10832	22133	22550	30317
Proportion (%)												
Islamic Bonds	17	16	1	0	5	9	19	34	3	8	34	43
Conventional Bonds	83	84	99	100	95	91	81	66	97	92	66	57

Source: SC and BNM (various years) and Ismail (2002).

Figure 1: Private debt securities issued (1990-2001)



The growing importance of the PDS market is further evidenced by the 21% surged in its outstanding issues in 2001, compared to a mere 4% increase in outstanding bank loans for the same period. Notwithstanding that, banks loans remained the preferred source of funding with a total outstanding amount of RM432.3 billion as at end of 2001 against RM132.6 billion for PDS (BNM, 2001).

Funds raised through IPDS in the domestic bond market have grown tremendously since then, hitting a high of RM5.2 billion in 1997 before the onslaught of the Asian financial crisis clipped it down to only RM345.0 million in 1998. The subsequent economic recovery sent the amount of IPDS issues soaring to peak of RM13.0 billion in 2001. As shown in Table 1, IPDS accounted for 43% of total PDS issued in 2001 in comparison to 34% for the previous year. The Islamic Bonds issued in 2001 were mainly to finance large privatized projects such as water and power projects, which require higher capital outlays. As at November 2002, RAM has rated 87 IPDS issues worth RM36.7 billion compared with 549 conventional PDS totaling RM129.2 billion (BNM, 2002; Ismail, 2002; SC, 2002).

The corporatisation and privatisation of major state-owned enterprises, notably public utility companies will be one of the main catalysts for the growth of the Islamic bond markets in Asia region. The total amount needed for infrastructure development by Muslim countries for the decade of 2001-2010 has been estimated at USD 700 billion. To-date, the development of IPDS in Malaysia has been encouraging.

MALAYSIAN EXPERIENCE IN THE DEVELOPMENT OF ISLAMIC BONDS MARKET

Initial Development

Malaysian government was the first issuer of Islamic bonds globally with the successful issuance of the Government Investment Issue or GII (formerly known as the Government Investment Certificate or GIC) in 1983. It was formerly intended to facilitate the management of assets in the Islamic banking system. It was based on the Islamic concept of *qardh hasan* (benevolent loan) non-interest bearing loans. Based on the concept, GII was not a tradable instrument under the concept of *qardh hasan*, which did not permit secondary trading. The underlying concept of GII was then changed to *Bai' al-`Inah* to allow it to be traded in the secondary market (SC,2004).

In the other hand, the Malaysia's first IPDS issue was Shell MDS Sdn Bhd's RM125.0 million *BBA* facilities in 1990. In that transaction, a group of financiers had sold certain identified assets to Shell at a higher price, thereby resulting in the company's indebtedness to the financiers. The debt arising from this contract was documented by certificates of debt, which represented the issuer's unconditional obligation to settle the debt in the manner prescribed by financing contract.

In Malaysia, most of the Islamic debt papers issued to date were structured on the principles of *Murabahah* and *al-Bai' Bithaman Ajil (BBA)* (SC, 2002). Only a few of them were based on *Istisna', Ijarah, Mudarabah* and *Musyarakah.* The main hurdle that affected Malaysia's progress in the international Islamic financial arena is the difference of opinions and interpretations among the Islamic bankers and the Islamic jurists on Islamic-based financial instruments and economic issues.

The Operation of Malaysian Islamic Debt Securities (Sale-based Bonds)

To further understand of the application of these concepts, we should first look at the three main stages involved in the sale-based Islamic bonds issuance.

First Stage: Securitization – The Creation of an Underlying Asset

Asset securitization is a process of issuing securities by selling financial assets identified as an underlying asset to a third party. Financial assets that have a future cash flow will be sold by a company that needs liquidity or as a new fund to a third party known as a special purpose vehicle (SPV) for cash. To enable the payment for the purchase of the assets, the SPV will issue asset-backed debt securities to investors, based on the future cash flow of the assets (SC, 2002).

An object of sale in the Islamic law of contract must be a property of value. When a bond certificate is supported by an underlying asset, it is transformed into an object of value and therefore qualifies to become an object trade whereby it can be purchased and sold in both the primary and secondary markets. Investors then will have the right to sell (*haq maliy*/rights on financial assets) these bonds (Rosly, 1999).

Securities Commission of Malaysia has adopted the opinion of the legitimacy of asset securitization if the underlying asset to the instrument is Syariah compliant. It also recognizes the cash flow or debt as *haq maliy* which can be considered as property. Thus, it also can be securitized (SC, 2002).

Second Stage: Issuance of Islamic Debt Certificates

This usually takes place in the primary market where the issuing company will sell debts certificates or bonds to investors. A debt certificates issue is valid only when it is supported by an asset. In other words, the bonds must be securitized. If the 1st stage involves a contract of *Murabahah*, then the debt certificate is called *Murabahah*.

Likewise, if the *Istisna'* contract is used, the debt certificate is called *Istisna'* (Rosly, 1999).

Usually, this stage involves two types of bond issues i.e., the primary and secondary notes. The primary notes will be paid in lump sum at the maturity of the notes. These primary notes actually imply the capital component of the assets. And since the investors desire to take profit out periodically, secondary notes maturing every six months will be normally issued. The secondary notes actually make up the profit arises from the first stage transaction. For example, if the underlying asset is a building which costs RM 100 million is purchased by the financiers and then, they resell it back to issuer for RM 124 million to be paid semi-annually in 3 years. The primary notes will be RM 100 million paid after 3 years. And the secondary notes will be RM 24 million which will be paid in RM 4 million each in every six months. This given example illustrates the normal practice in Malaysia (Rosly, 1999).

Third Stage: Trading of Debt Certificates

This happens in the secondary market where the bonds are bought and sold between the investors. When the debt certificate is securitized, it now becomes property than can be traded. The sale and purchase of these debt certificates is called as *bai' al-dayn*. With regard to the sale of debts (*bai' al-dayn*), the Securities Commission of Malaysia has accepted the permissibility of debt sale at par or at discount, to the debtor or to a third party (SC, 2002). However, it is not acceptable in the Middle-east Countries even though the debt is supported by an underlying asset (Rosly, 1999).

Syariah-compliance Issues

Critics still allege that the *BBA* and *Murabahah* (sale-based) bonds admit "back door" to interest. In practice, all these concepts render to *bai' al-'inah* which is very controversial in term of its legitimacy in Islam. The main cause of this controversy lies in the conceptual differences between the Islamic banks as well as Islamic jurists in Muslim countries. As far as the three methods of financing are concerned, they are debt-based securities.

A considerable number of Islamic jurists in other parts of the world, including the Middle East are not comfortable with this concept and have vehemently attacked this practice. According to them, the motive of the parties in *bai' al-'inah* is illegal and the contract in nothing but a legal device to get a loan with interest (backdoor to *riba'*). Their declination of *Bai' al-Dayn* also makes the sale of sale-based bonds in the secondary market to a third party not attractive and rejected. Although this has caused some confusion in the global markets, there are also serious efforts to innovate alternatives in the Malaysian Islamic Bond market. The different interpretations among the various Islamic schools of thought on financial and economic issues may affect the progress of Malaysia's venture into the international Islamic financial arena.

The issuance of sale-based (or debt-based) bonds could be considered as the earliest experience of Malaysia in initiating the development of Islamic private/government debt securities. Most of the Islamic debt papers issued to date have been based on these concepts.

The Establishment of Syariah Advisory Council (SAC) and Islamic Capital Market Unit (ICMU)

The setting up of the Islamic Capital Market Unit (ICMU) in the Securities Commission as well as the Syariah Advisory Council (SAC) is seen as pioneering efforts towards the creation of a more organized and efficient Islamic capital market (SC, 2002). The two institutions which comprise researchers in *fiqh al-muamalat* and capital market, academicians, *muftis*, Syariah scholars, academicians and Islamic finance experts are very much involved in the product origination and advisory in Syariah-compliance matters relating to Islamic capital market activities and regulations. Additionally, these developments provide investors more confidence towards the credibility of Malaysian Islamic capital market. It is also observed that SC, through its experts and Securities Industry Development Center (SIDC), has played a major role in educating the public and investors in matters relating to the ICM generally and Islamic bonds particularly.

Islamic Bonds Rating

The introduction of Islamic bond rating beginning in 1994 represents another critical milestone in the development of Islamic bond market. Bond ratings are principally designed to arrive at a reasoned judgment on credit risk via a careful analysis of the critical issues surrounding a specific debt on the issuer (Mod Asri *et al*, 2004). Currently, there are two local rating agencies that undertake ratings of corporate debt issues including ICM instruments. The first one is the Rating Agency Malaysia Berhad (RAM) with its first involvement in IPDS (Islamic Private Debt Securities) was initiated by Petronas Dagangan Berhad's RM300 million issues in 1994 (the country's first IPDS issue to be rated). Malaysia Rating Corporation Berhad (MARC) is the second rating agency established in 1995. Both have played active roles in the development of the Malaysian market for conventional bonds and Islamic Private Debt Securities (IPDS). In general, both agencies have the same criteria for corporate bonds rating. The criteria incorporate issue structure (e.g. repayment schedule and debt types), business risk analysis, financial risk analysis, management, ownership and other qualitative factors (Mod Asri *et al*, 2004). However, realizing the uniqueness and types of Islamic bonds, the rating methodology should be different to that of conventional bonds rating (RAM, 2003). This is a major area that needs more researches in order to further develop Malaysian Islamic bonds market.

Ijarah-Based Islamic Bonds

The controversial *Syariah* issues surround both the concept of *bai' al-'inah* and *bai' al-dayn* in sale-based Islamic bonds, the way forward for Malaysia's expansion would be via the creation of new financial products that would be internationally acceptable in term of their *Syariah* compliance. As a proactive stance in resolving the issues of acceptability of Malaysian Islamic bonds by the international market, Malaysia has adopted *Al-Ijarah* concept in new issues of Islamic bonds.

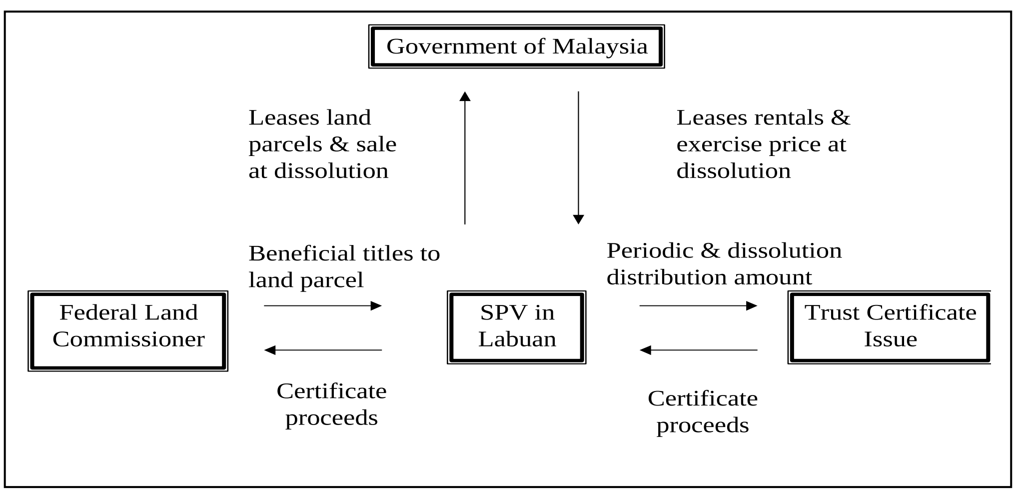
First Global Sovereign Islamic Bond: Malaysian Government Sukuk

In June 2002, Malaysia successfully launched the world's first international Islamic bond issue. A special-purpose vehicle (SPV) wholly owned by the government namely Malaysia Global *Sukuk* Inc that was incorporated in Labuan issued the USD600 million 5-years Islamic bonds (*Sukuk*). The transaction was based on the *Ijarah* concept. The structure of the *Sukuk* is underpinned by a portfolio of prime real estate assets owned by the Federal Land Commissioner of Malaysia, which is sold to the SPV. The SPV then leases the assets to the Government of Malaysia for five years, a period equivalent to the tenure of the bonds. The lease payments paid by the Government exactly match six monthly distributions to investors and represent a senior unsecured obligation for Malaysia. On maturity, the SPV sells the asset back to the Malaysian Government at the original price (i.e. the face value of the bond issue). Proceeds from the sale of the assets will be used to repay the investors, in term of the principle amount of trust certificates (LOFSA, 2002). Figure 2 below can further illustrate the concept.

The *Sukuk Ijarah* were well-received, with more than 2 times' over-subscription at USD1.I billion. The transacted amount was increased from USD500 million to USD600 million, restricted by the underlying assets that are valued at slightly above USD600 million. The issue achieved a good pricing of 95 basis points above the London Interbank Offer Rate (LIBOR). The *Sukuk* Bonds were listed on the Luxemborg Stock Exchange, Labuan International Financial Stock Exchange (LFX) and Bahrain Stock Exchange. The *Sukuk* Bonds were initially rated BBB by Standard & Poor's (S&P) and Baa2 by Moody's Investors Service (Moody's), which were equivalent to Malaysia's sovereign rating, as both principal and periodic distribution/coupon represent the full faith and credit of the sovereign. Therefore, any changes in Malaysia's sovereign rating will result in corresponding adjustment in the rating of the *Sukuk* Bonds. Following the recent 1-notch upgrade of Malaysia's foreign currency rating by both S&P and Moody's, their respective ratings for the *Sukuk* Bonds were adjusted accordingly to BBB+ and Baa1 (SC, 2002).

The deal was strongly marketed with road shows covering the local market, Hong Kong and the major financial centers in the Middle-East, including Abu Dhabi, Dubai, Bahrain and Jeddah. The deal also achieved its objective of broadening its investor base as new investors accounted for about 65% of the overall volume. In terms of location, about 50% of the investments were placed in the Middle East and 30% in Asia, with the balance taken up by investors based in Europe and the USA (SC, 2002).

Figure 2: The First Malaysia's Sovereign *Sukuk*



Source: LOFSA Annual

First Global Corporate Islamic Bond: Guthrie Serial Islamic *Sukuk* (*Al-Ijarah*)

In the side of corporate Islamic bonds, Kumpulan Guthrie Berhad (Guthrie), through First Global *Sukuk* Inc (FGS), a Labuan incorporated SPV, came out with a USD150 million *Sukuku Al-Ijarah* issue. This represented the first trance of Guthrie's USD395 million Islamic bond issues to refinance an *Ijarah* facility raised earlier for the acquisition of 4 plantations in Indonesia. Under the *Ijarah* structure, Guthrie sold its assets, comprising Malaysian plantation land to FGS and the latter leased the same assets back to Guthrie under various tenures (SC, 2002).

As proven by the two *Sukuk* Bonds issues above, the *Sukuk Al-Ijarah* structure is an ideal concept to widen the investor base to include international investors, as it is *Syariah* compliant on a global basis.

Tax, Accounting and Regulatory Review

In 2002, SAC had allowed the issuers of IPDS to apply third-party guarantee on the capital invested under the principles of *Muqaradhah/Mudharabah*. It was also agreed that a fee (*Ujrah*) is allowed to be paid to the guarantor on the condition that the guarantee should not be on a recourse basis, which means the investors cannot go after the issuers in the event of business failure since the guarantor will provide the guarantee. The guarantors are also allowed to ask for collaterals from the issuers in view of possible gross negligence by the issuers.

In addition, the concession rights are accepted as an approved underlying asset for structuring IPDS under the principle of BBA. It was also agreed to recognize the contract for the supply of goods and maintenance that is made with the government as an approved underlying asset for structuring the IPDS. Both decisions were based on *iqta'* principle of the Islamic jurisprudence in which *qiyas* (analogy) methodology is applied. On top of that, "When Issue" (WI) process for the issuance of PDS in the primary market is recognized as Syariah compliant. The ruling was made on the basis that there are no elements of *riba* (usury) and *gharar* (uncertainty) in that WI process.

As part of the continuous effort to promote greater product innovation and to encourage local issuers to subscribe to universally accepted Syariah compliant products, in particular products that are acceptable to Muslim investors from the Middle East, the Malaysia Government in its Federal Budget 2003, allowed tax deduction on expenses incurred in the process of restructuring, documenting and issuing IPDS against the income for a period of five years. The incentives are given to issuers who adopt the Syariah principles of *Ijarah, Mudharabah* or Musyarakah for structuring IPDS.

CONCLUSION

The developments that took place in the Islamic Bonds market in particular and ICM generally illustrate the vast experience of Malaysian commitment in managing the growth of its Islamic financial system in order to become the most preferable Islamic financial hub. It is noted from the above discussions that it took Malaysia twelve years to issue globally accepted Islamic bonds despite the exemplary support from the government and private sectors. Thus, Syariah compliance issue is vital and very significant aspect to consider in the future development of Islamic bonds market. Harmonization of Syariah standards and views in the global level and/or adopting the view of majority could be one way to attract global investors particularly from the Middle-East countries. The development of Islamic bonds market should also utilize the various concepts of Islamic principles rather than picking those contracts that stimulate the conventional debt instruments. Credits and recognitions should be given to various parties involved in the development of Malaysian Islamic bonds market, but becoming the international Islamic capital market center as outlined in the Capital Market Masterplan requires more efforts to be carried out. Five key factors, as recognized by the author, have hitherto contributed to the commendable development of Malaysian Islamic bonds market; the active role of Syariah scholars and Islamic finance experts; authority's support through tax, accounting and regulatory review; research and development to create various types of Islamic bonds; the introduction of Islamic bonds rating framework; and the education of general public and investors. These are the five significant areas that could be further developed in developing a more comprehensive Islamic bonds market.

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