



2nd COMCEC CAPITAL MARKETS REGULATORS FORUM

19th September 2013

Four Seasons Bosphorous Hotel
Istanbul, Turkey

PROGRESS OF ISLAMIC CAPITAL MARKET IN THE MALDIVES



Dr.Aishath Muneeza
Head of Islamic Finance &
Chairperson of Capital Market Shariah Advisory Council



Maldives

One Tiny Nation with One Religion & One Language

- ▶ Maldives is a hundred percent Muslim country famous for its white sandy beaches and crystal clear seas.
- ▶ It is undeniably among the world's most desired tourist destinations.
- ▶ The geographical nature of Maldives is unique as Maldives is one of the lowest lying countries in the world, barely 1.5 metres above sea level.
- ▶ The country consists of more than thousand one hundred coral islands which are geographically dispersed across some 90,000 square kilometres with about 70% being sea.
- ▶ The Constitution of the country stipulates that only Muslims can be considered as citizens of Maldives, the legal and the financial system of the country is however not fully based on Islamic law.
- ▶ Hence, it would not be erroneous to state that the Maldivian legal and financial systems are pluralistic.



Maldives

One Tiny Nation with One Religion & One Language

- ▶ Maldives has an open economy and is heavily dependent on imports for most of its economic activities. Almost all staple foods are imported. Consequently, foreign merchandise trade normally records a large deficit; imports have averaged around 61 % of GDP in the last five years.
- ▶ Domestic exports, consisting primarily of fish and fish products range between 11-15% of GDP.
- ▶ Agriculture and manufacturing, constrained by the limited availability of arable land and the shortage of domestic labor, play a lesser role in the economy.
- ▶ The Government, the private sector, non-government organizations and foreign donors are the drivers of the country's development process





Contents

- ▶ Introduction
- ▶ Capital Market Development Authority's Functions
- ▶ Development of Islamic Capital Market in the Maldives
- ▶ Islamic Capital Market Development Section
- ▶ Islamic Capital Market Products in Maldives
- ▶ Islamic Capital Market Regulations
- ▶ Challenges
- ▶ Reforms Needed in Capital Market Laws to strengthen Islamic Capital Market in the Maldives
- ▶ Opportunities
- ▶ Way Forward



Introduction

- ▶ Maldives is moving towards the creation of dual financial systems
- ▶ Capital Market Development Authority's vision is to develop a full-fledged Islamic Capital Market parallel to the existing Conventional Capital Market
- ▶ The establishment of Islamic Capital market took place in 2011

Capital Market Development Authority's Functions

- ▶ The Capital Market Development Authority (CMDA) is an independent institution responsible for developing and regulating the capital market in the Maldives. The Authority is also tasked with the supervision of Maldives Retirement Pension Scheme administered by the Maldives Pension Administration Office (MPAO).
- ▶ It has statutory powers to license securities market intermediaries including brokers, dealers, investment advisers, asset managers, custodians, credit rating agencies as well as stock exchanges and central depositories.
- ▶ The regulatory powers are derived under the Maldives Securities Act, 2/2006 and Maldives Pension Act 8/2009.



Development of Islamic Capital Market in the Maldives

- ▶ Islamic Capital Market is emerging in Maldives.
- ▶ The vision of CMDA is to develop Islamic capital market parallel to the existing conventional capital market as this would create a competitive environment in the financial market of Maldives and this would also contribute to the stabilization of the overall economy of Maldives.
- ▶ The Capital Market Strategic Plan was revised to include the ICM component defining the long term and short term objectives of ICM development. Since this revision, the CMDA embarked on various tasks to facilitate development and the progress has been remarkable.

Development of Islamic Capital Market in the Maldives

April 2011

- Establishment of CMSAC

May 2011

- Issuance of Pre-IPO Shari'ah Screening Guidelines

June 2011

- Establishment of ICM Function in CMDA & Amana Takaful (Maldives) plc was given permission to be listed as the first Shari'ah compliant company

September 2011

- Launch of first Islamic Equity

October 2011

- Establishment of ICMDS in CMDA

Development of Islamic Capital Market in the Maldives

February
2012

- Trading of first shariah compliant equity in the Maldives Stock Exchange

May 2012

- Endorsement of ICM Regulations by the Board

July 2012

- First sukuk prospectus received

September
2012

- Endorsement of first sukuk structure proposed

Development of Islamic Capital Market in the Maldives

Feb 2013

- First Shariah Compliant Sovereign Sukuk papers issued

July 2013

- Three Regulations on ICM gazetted
 - Sukuk Issuance Regulation
 - Registration of Shariah Advisor Regulation
 - Islamic Securities Screening Regulation

May 2013

- Capital Market Shariah Advisory Committee renamed as Capital Market Shariah Advisory Council

September 2013

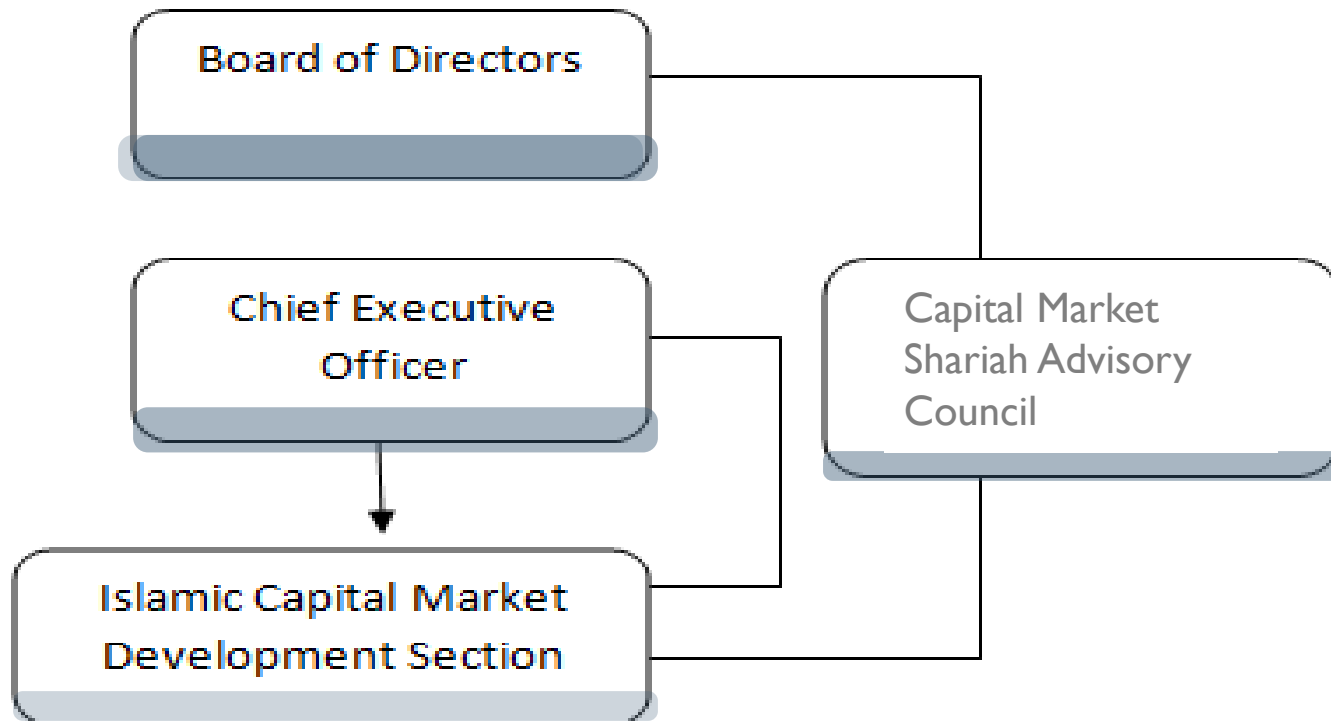
- First Corporate Sukuk- HDFC Mudharabah Sukuk Prospectus launch (subscription begins from 1st Oct 2013)



Islamic Capital Market Development Section

- ▶ The mandate of the Islamic Capital Market Development Section is to:
 - ▶ Develop Islamic Equity market and created Islamic Debt Market in Maldives;
 - ▶ Provide secretarial services to the Capital Market Shariáh Advisory Committee (CMSAC);
 - ▶ Conduct education and awareness/ capacity building programs for the development of Islamic Capital Market in Maldives
 - ▶ Conduct research and publication activities to facilitate the growth and sustainability of Islamic Capital Market in Maldives;
 - ▶ Maintain the relationship with the CMDA affiliated international bodies in connection to Islamic Capital Market;
 - ▶ Implement the targets allocated to the section in the Capital Market Strategic Plan 2010-2014

Islamic Capital Market Development Section





Islamic Capital Market Products in Maldives

- ▶ **Shari'ah compliant Securities:**
 - ▶ First Shari'ah compliant security was given permission to be listed in Maldives stock exchange in June 2011.
- ▶ **Sukuk or Islamic Bond:**
 - ▶ The prospectus of the first corporate sukuk in the Maldives by HDFC plc is launched and the subscription for this sukuk will begin from 1st October 2013





Islamic Capital Market Regulations

- ▶ CMDA follows the Malaysian ICM model in developing the legal framework for the Maldives Islamic Capital Market
- ▶ Islamic Capital Market laws are:
 - ▶ Islamic Securities Screening Regulation
 - ▶ Sukuk Issuance Regulation
 - ▶ Regulation to Register Shariah Advisers





Islamic Capital Market Laws

▶ Islamic Securities Screening Regulation

- ▶ This regulation lay down a uniform process of Shariáh screening of equities.
- ▶ The main objective of such screening is to ensure that the stocks or securities that one purchases or invests are in compliance with the principles of Shariáh
- ▶ Shariáh Tolerance benchmarks are determined
- ▶ Shariáh Corporate governance is promoted

▶ Sukuk Issuance Regulation

- ▶ Regulate the issuance of sukuk
- ▶ The documentation requirements are stipulated therein
- ▶ Some crucial aspects of sukuk structures from shariah perspective are provided

▶ Regulation to Register Shariah Advisers

- ▶ Introduce the mode of registration of Shariáh Advisors to advise on the creation of ICM products
- ▶ The qualification of the Shariáh Advisers are set under this regulation

Challenges





Legal Challenges

- ▶ Need to amend Revenue Stamp Act
 - ▶ Islamic financial transactions involves series of documents
 - ▶ If, each of these documents are subject to tax, the transaction cost will increase (see: S.4 of the Revenue Stamp Act)
 - ▶ Hence, an exception under Revenue Stamp Act to Islamic finance facilities are vital



Legal Challenges

- ▶ Need to amend Land Law
 - ▶ Islamic Financial transactions would normally involve buying and selling of the underlying assets and land is one of the most widely used type of underlying asset that generates profit
 - ▶ Under the existing Land Act of Maldives, there is a 15% of tax imposed on the transfer of land
 - ▶ Hence, for example, in a typical sukuk ijarah transaction when issuer sells the land to the sukuk holders, land would be subject to tax and in the same sukuk transaction, when the sukuk holders sell back the land to the issuer, again the land would be subject to tax; making the whole transaction expensive
 - ▶ Likewise, at the moment, foreigners are unable to own land in Maldives. Hence, for a sukuk transaction involving land, parties like Maldives Islamic Bank Pvt Ltd and Amanah Takaful Maldives PLC would be unable to participate and foreign investors would also be banned from actively taking part in the transaction



Reforms Needed in Capital Market Laws to strengthen Islamic Capital Market in the Maldives

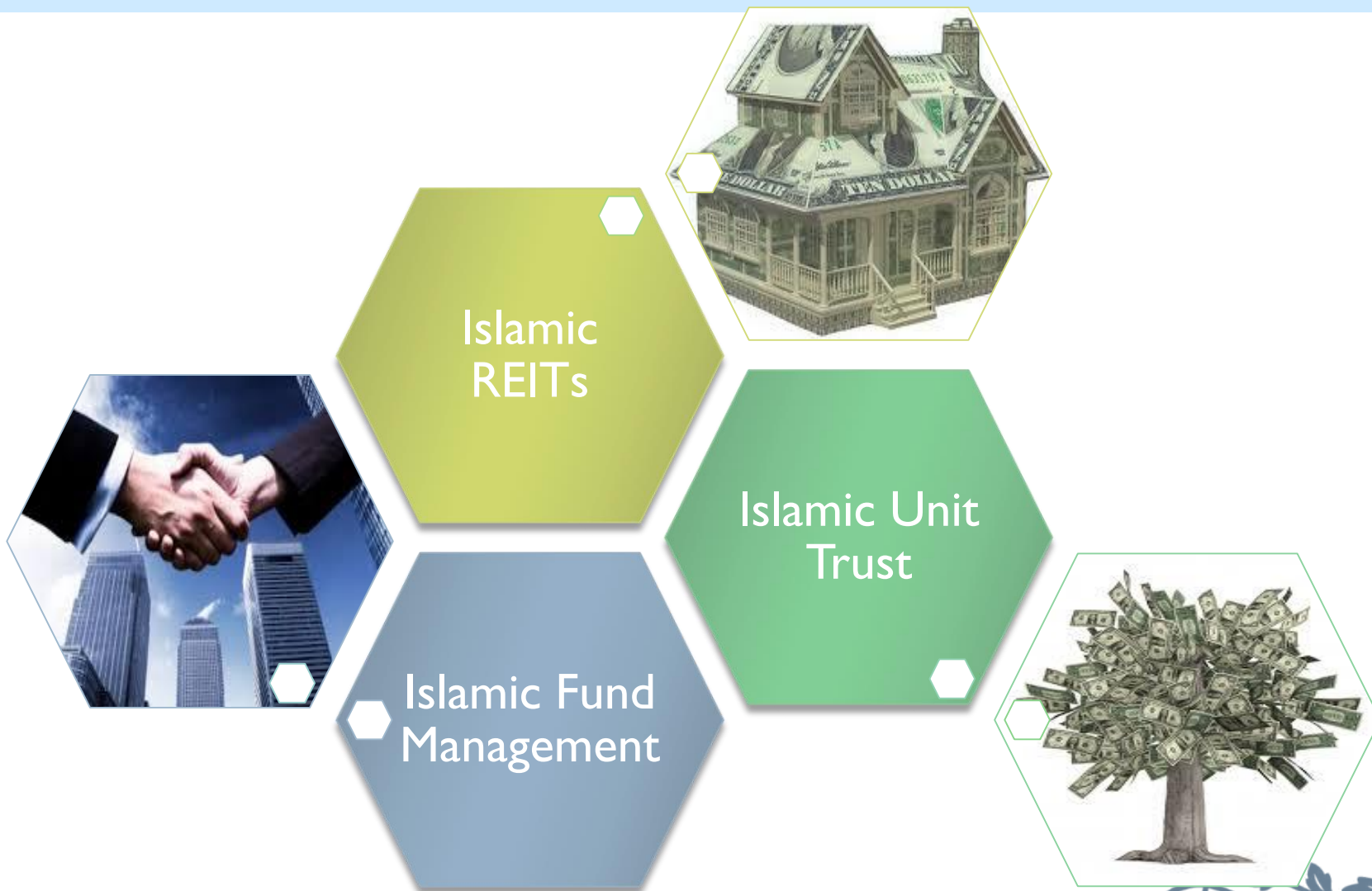
- ▶ **Amendment of Securities Act 2/2006**
 - ▶ Securities Act need to be enhanced to deal with the areas related to Islamic Capital Market in the Maldives
 - ▶ The existing Act is too brief on this as it is only in the definition of “securities” that we see Islamic Capital Market
 - ▶ Furthermore, the role of Capital Market Shariah Advisory Council (CMSAC) and their functions need to be statutorily recognized in the Securities Act for the sake of good shariah governance
 - ▶ Also, activities in the OTC market need to be addressed in this Act



Reforms Needed in Capital Market Laws to strengthen Islamic Capital Market in the Maldives

- ▶ Conventional Capital Market has been in the country for some time and all the laws related to capital market have been made to accommodate the conventional market activities
- ▶ Hence, there is an imminent need to harmonize/modify these laws to accommodate ICM
- ▶ Also statutes like Data Protection Act and Computer Crimes Act are vital to bring necessary technological progress to the capital market activities at a fast pace
- ▶ There is also need for a Bankruptcy Act to regulate and protect the debtor's assets for the benefit of creditors

Opportunities





Way Forward

- ▶ It is hoped that the creation of a sukuk market in the Maldives will help the existing liquidity management problems among the Islamic Financial Institutions
- ▶ It is anticipated that in a near future, the country would witness a full-fledge Islamic capital market operating parallel to the conventional market.
- ▶ Definitely, the creation and the sustainable development of this new market would contribute to the stabilization of the Maldivian economy.
- ▶ Capital Market Development Authority with the Ministry of Islamic Affairs is aspiring to establish Maldives Islamic Finance Centre to cultivate and promote Islamic finance in the Maldives



Thank You

for further enquiries please contact: muneeza@cmda.gov.mv

