

ISLAMIC CAPITAL MARKET QUARTERLY BULLETIN

3RD QUARTER 2012

The bulletin focuses on Islamic Capital Market news and developments during the third quarter of 2012.

FOREWORD BY THE MINISTER OF ISLAMIC AFFAIRS

SHEIKH MOHAMED SHAHEEM ALI SAEED



It gives me great pleasure to write the foreword for this Quarter's edition of *the Islamic Capital Market Bulletin*. I am impressed about the quality and quantity of the work CMDA has undertaken to lay the foundation for a full-fledged Islamic Capital Market in the Maldives.

The short duration in which these developments have taken is praise-worthy and I am assured that the momentum will be maintained by CMDA. I would like to congratulate the management and the staff of the CMDA as well as the Members of the Capital Market Shari'ah Advisory Committee for their remarkable work.

The Ministry of Islamic Affairs is planning to establish collaborations with CMDA in the near future by entering into a Memorandum of Understanding with the objective of extending cooperation and assistance in developing Islamic Finance, especially Islamic Capital Market, in the Maldives. I believe that CMDA is the right institution to spearhead this initiative as it has achieved so much in developing the Islamic Capital Market in the Maldives.

On behalf of the Ministry of Islamic Affairs and on my own behalf, I congratulate CMDA for taking the initiative to develop an Islamic Capital Market in the Maldives and recently being selected as the co-chair of the Islamic Finance Task Force of COMCEC Capital Market Regulators Forum.

I wish all the best to the Islamic Capital Market Development Team and I am confident that the combined effort of key stakeholders will pave the way for a sustainable Islamic Capital Market in the Maldives.

COMCEC CAPITAL MARKET REGULATORS FORUM

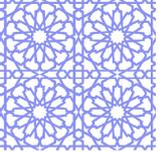
As a Member State of Organization of Islamic Cooperation (OIC), Maldives is eligible to become a member of COMCEC Capital Market Regulators Forum.

Chief Executive Officer of CMDA attended the first meeting of the Capital Market Regulators Forum COMCEC, which was held in Turkey (Istanbul) from 26th to 27th September 2012. CEO delivered a presentation on Introduction to Islamic Capital Market of Maldives to provide information on the Maldives Islamic Capital Market to the participants of the forum. (visit www.cmda.gov.mv to view)

The primary focus of the first meeting was to set up task forces for Capacity building, Market Development, Islamic Finance and Financial Literacy. Maldives attained membership of the four task forces which was open to all participating states. It is with great pleasure that we mention Maldives has been appointed as the co-chair of the task force for Islamic Finance.

The task force for Islamic Finance will serve as a proper platform through which member states may harness their respective know-how and experiences about interest free financial instruments. The first step to be undertaken by the Islamic Finance Task Force is to determine the current status for Islamic Finance of COMCEC Member States.





IMPORTANT MEETINGS & DISCUSSIONS

- ◆ Meeting with the Minister of Islamic Affairs, Sheikh Mohamed Shaheem Ali Saeed to discuss progress of ICM development in Maldives. The main outcome of this meeting was the decision to enter into an MoU which includes areas of cooperation for development of the Islamic Capital Market in the Maldives.
- ◆ Uza. Aishath Muneeza, Head of Islamic Finance, represented CMDA in the Seminar on the Role of Islamic Finance in the Development of Africa which was organized by the Central Bank of Mauritius and Islamic Financial Services Board (IFSB) in Mauritius from 6 - 7 September 2012. CMDA Chaired the Session on Structuring of Sukuk for new markets in this seminar.
- ◆ The Securities Commission Malaysia (SC) hosted the IFSB-IOSCO closed-door Roundtable on Disclosure Requirements for Islamic Capital Market products on 18 September 2012 at the SC. Uza. Muneeza participated in this Roundtable which brought together relevant authorities and key industry practitioners from around the world to engage in robust debate and dialogue on regulatory issues, challenges and potential solutions relating to disclosure requirements for ICM products.
- ◆ Meeting with Senior Executives of the Maldives Transport and Contracting Company to disseminate information on ICM and furthermore to discuss avenues of financing the company's projects via ICM.
- ◆ Meeting with Maldives Islamic Bank to explore investment avenues and the possibility of accommodating a Hajj Fund and to deliberate on the structure and logistics of such a fund.

TRAINING & AWARENESS

The following training and awareness programs were conducted during the quarter;

- ◆ One Day Awareness Program on 'Fundamentals of Islamic Finance' - 1 July 2012, Male'
- ◆ One Day Awareness Program on 'Introduction to Sukuk' - 2 July 2012, Male'

- ◆ Public Lecture for Students of Fuvahmulah School - 29 August 2012, Fuvahmulah
- ◆ Public Lecture for Students of MJM School - 30 August 2012, Fuvahmulah
- ◆ One Day Workshop on Islamic Finance for Local Councilors - 30 August 2012, Fuvahmulah
- ◆ Public Lecture on ICM - 31 August 2012, Fuvahmulah
- ◆ Lecture for students of Haafiz Ahmed School - 1 September 2012, Fuvahmulah
- ◆ Lecture for students of Fuvahmulah Atoll Thauleemee Marukazu - 1 September 2012, Fuvahmulah
- ◆ One Day Workshop on Islamic Finance for Civil Servants - 1 September 2012, Fuvahmulah

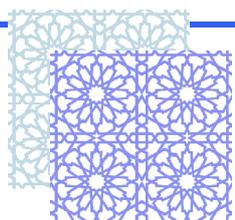


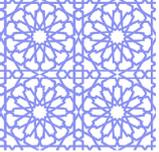
Workshop on Islamic Capital Market - Fuvahmulah (30 August 2012)



Workshop on Islamic Finance for Civil Servants - Fuvahmulah (1 September 2012)

Training course on Fundamentals of Islamic Capital Market in collaboration with Islamic Research and Training Institute (IRTI) to commence on 7th October 2012.





STRENGTHENING THE OPERATING STRUCTURE AND CAPACITY OF CMSAC.

An effective Shariáh framework is vital in ensuring observance with Shariáh principles which is a fundamental feature in the development of Islamic Finance and Islamic Capital Markets. As such, it is important to harmonize the Shariáh interpretations and strengthen the operating structure of the Capital Market Shariáh Advisory Committee (CMSAC).

During the quarter, CMDA held discussions with the Ministry of Islamic Affairs to include a Shariáh Scholar to represent the Fiqh Academy on the CMSAC and also to include a staff of CMDA representing the CMSAC in the Fiqh Academy.

Furthermore, during the COMCEC Capital Market Regulators Forum, CMDA CEO held discussions with high level representatives from the Central Bank of Sudan to request for assistance to review and strengthen the structure of CMSAC and capacity building for CMSAC Members. We are also pleased to note the positive signal from the Central Bank of Sudan to assist in this regard.

CAPITAL MARKET SHARIÁH ADVISORY COMMITTEE

During the quarter, the Capital Market Shariáh Advisory Committee (CMSAC) met to discuss the proposed Sukuk structure of Housing Development Finance Corporation Plc (HDFC) and put forward their advice to the Board of Directors of CMDA, regarding endorsement of the structure.

HDFC SUKUK PROSPECTUS REVIEW

During the quarter, numerous meetings were held with HDFC to discuss the proposed Sukuk structure of HDFC. The review of the first draft of the Sukuk prospectus is now completed by CMDA and upon endorsement by the Board of Directors of the CMDA, HDFC will be granted approval for their Sukuk issuance.

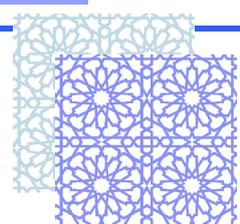
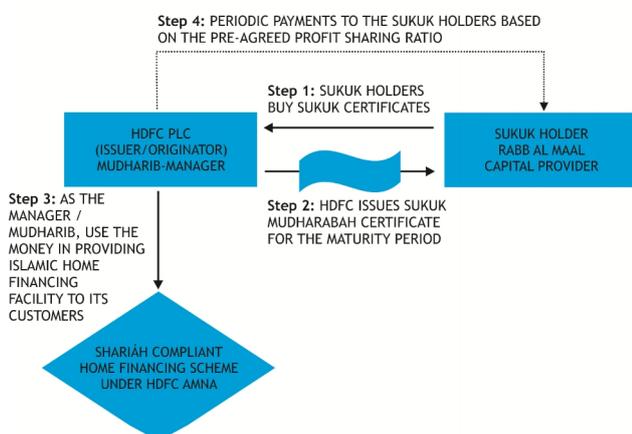
WHAT IS SHARIÁH COPPORATE GOVERNANCE?

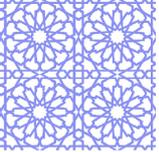
Shariáh Corporate governance is the key principle that could never be compromised in an Islamic financial transaction whether it's in Islamic banking or Islamic Capital Market. Islamic Financial Services Board's Guiding Principles on Shariáh Governance Systems for Institutions Offering Islamic Financial Services defines "Shariáh governance system" as the set of institutional and organizational arrangements through which an institution offering Islamic financial services oversees Shariáh compliance, i.e. that Islamic banking products and operations are in accord with Shariáh principles.

In practice, as evident from the above definition, establishment of Shariáh board is essential for Shariáh corporate governance. The Governance Standards issued by Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) defines a Shariáh board as: "an independent body entrusted with the duty of directing, reviewing, supervising the activities of Islamic Financial Institutions for a purpose of Shariáh compliance and issuing legal rulings pertaining to Islamic banking and finance."

The true nature of Shariáh corporate governance can be understood only if one comprehends the nature of Islamic worldview. The reason why Islamic worldview is linked to Shariáh corporate governance is because; the word "Shariáh" prefix to the word corporate governance proves that the law applicable to Shariáh corporate governance is Islamic law. Hence, the basic structure of Shariáh corporate governance is that the first and foremost duty of the company shall be owed to the Almighty and then only to the stakeholders.

Proposed Sukuk Structure





INTERVIEW - INTRODUCTION OF EXCHANGE TRADED FUNDS (ETF)

For this issue of ICM Bulletin, an interview is conducted with the Managing Director Mr. Hareez Sulaiman of Amana Takaful Maldives, about the company's plans to introduce Exchange Traded Funds (ETFs) in Maldives.

Are you trying to introduce Islamic ETFs to Maldives?

Yes. Given the Muslim population and the growing financial market, ETFs could be used as an option to diversify in order to mitigate the risks of an individual's portfolio.

What do you think will be the benefit of introducing Islamic ETFs to Maldives?

It brings about diversification of an individual's portfolio with minimal cost while sustaining all features of an ordinary stock. ETFs can be bought & sold at market price (calculated through Net Asset Value) at any time during the day unlike mutual funds or Unit Investment Trusts which are traded at the end of the day.

An ETF provides complete transparency because the portfolio details are available to the public and are priced frequently throughout the day. Since mutual funds or unit trusts are not available in Maldives this would allow fund managers to use as an initial platform to market and monitor units that are existing for a particular portfolio.

How would Islamic ETF work?

An Islamic ETF is an investment vehicle traded on the Stock Exchange much like the stock market. It holds assets like Shariáh compliant stocks, Sukuks (bonds), funds and commodities such as gold. It is an open-ended fund with a distinctive kind of creation and redemption mechanism supported by a system of participating dealers and liquidity providers.

An ETF trades at the same price of the Net Asset Value (NAV) of the underlying asset over the course of the trading day and tracks indices

like DJIM.

In an Islamic ETF, the fund manager is appointed as a "Wakil" on behalf of the investor in return for a fee which can be fixed or based on performance depending on the "Wakala" contract.

Do you think the legal framework of the country is ready to offer Islamic ETF?

Maldives being a Muslim country, it would be an excellent instrument with foreign inflows coming in to the country. With the current situation of the Maldivian Stock Exchange, it would be a good time to move into a special fund backed by gold (broken down into units) preferably a closed-ended fund where the word of mouth on the tool would give a foundation to move on to an ETF tracked by an index in a couple of years or so.

Once the stock exchange is enhanced and there is active trading, it could be used to diversify portfolios in order to reduce risks. However, this should be supported by development in education, awareness and expertise in the field of Islamic Finance.

How would Islamic ETF help the development of our economy?

With the creation of an active market in the country, ETF's and other investment tools could fully maximize the potential of Maldives which is a developing country. With the inflation rate averaging around 13%,ETFs will be a worthy investment instrument for investors to hedge against inflation in which a lot of the idle funds can be exploited.

ETFs will also increase the per capita income of the country. In addition, it will contribute to the overall GDP and the foreign inflow as it could attract neighboring countries to invest in the market.

*This Bulletin is published by the Research & Publications Section of CMDA. All queries and suggestions with respect to the content of the Bulletin should be directed to:-
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