

**DRAFT**



**COMCEC**

Standing Committee  
For Economic and Commercial Cooperation  
of the Organization of Islamic Cooperation

CAPITAL MARKET  
**REGULATORS FORUM**  
COMCEC

ISLAMIC FINANCE TASK FORCE

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# FINAL REPORT

SUMMARY OF RESPONSES OF THE FEEDBACK FORM AND  
PROPOSED WORK PROGRAMMES

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**Report of the Islamic Finance Task Force of the  
COMCEC Capital Market Regulator**

November 2014

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**Chair of Islamic  
Finance Task Force**



**Co-Chair of Islamic  
Finance Task Force**



**Secretariat of the  
COMCEC Capital  
Market Regulators Forum**





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## LIST OF ABBREVIATIONS

<b>CMB</b>	Capital Market of Turkey
<b>CMF</b>	Conseil Du Marche Financier, Tunisia
<b>COMCEC</b>	The Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation
<b>COMCEC CMR</b>	COMCEC Capital Markets Regulators Forum
<b>ICM</b>	Islamic capital market
<b>IDB</b>	Islamic Development Bank
<b>IFSB</b>	Islamic Financial Services Board
<b>IFSI</b>	Islamic financial service institution
<b>IIFM</b>	International Islamic Financial Market
<b>INCEIF</b>	International Centre of Education for Islamic Finance
<b>IOSCO</b>	International Organization of Securities Commissions
<b>IRTI</b>	Islamic Research and Training Institute
<b>ISRA</b>	International Shariáh Research Academy for Islamic Finance
<b>MoU</b>	Memorandum of Understanding
<b>OCIS</b>	Oxford Center for Islamic Studies
<b>OIC</b>	Organization of Islamic Conferences
<b>S&amp;P</b>	Standard & Poor
<b>SECP</b>	Securities and Exchange Commission Pakistan
<b>SEO</b>	Securities and Exchange Organization, Iran
<b>SESRIC</b>	Statistical, Economic and Social Research and Training Centre for Islamic Countries

## Executive Summary

1. At the 2<sup>nd</sup> COMCEC CMR Forum General Assembly Meeting on 19 September 2013, the Islamic Finance Task Force (IFTF) presented a report on *Enhancing Infrastructure for Islamic Capital Market*. The report identified six (6) recommendations that the Member Authorities may co-operate and collaborate in pursuing the development agenda for ICM to spur greater cross-border financial and investment activities that support economic, trade and business linkages.
2. Subsequently, the Islamic Finance Task Force distributed a feedback form in January 2014 to address the individual member country's needs and to create centralised information and database on Member Authorities' and its intermediaries' capabilities throughout the Islamic finance value chain in providing ICM solutions ("Feedback Form"). The Islamic Finance Task Force had since received responses on the Feedback Form from 17 Member Authorities.
3. Based on the feedback received, the Task Force has identified the following top three 'high priority' recommendations:
  - i. Ensure globally recognised training and education programmes;
  - ii. Develop and promote ICM products and services as alternative financing and investment; and
  - iii. Foster and strengthen international cooperation and co-ordination to facilitate cross-border relationship.
4. Furthermore, a majority of the respondents also indicated their specific needs in all four segments of ICM infrastructure (i.e Legal, Regulatory and Tax Framework, Shariáh Governance, Talent Development and products and Services).
5. Some of the key immediate needs are:
  - To establish legal and tax framework;
  - To develop specialised training programmes;
  - To develop code of Shariáh governance including the conduct of Shariáh adviser;

- To develop sukuk and Islamic equities; and
  - To conduct applied research
6. In view of the members' diverse background and development in ICM, as an immediate to medium term approach, a majority of the member countries suggested that a regional cooperation could be established to look into the areas of capacity building to create awareness of the ICM for regional development.
7. For this purpose, a regional workshop on ICM can be organized to foster a closer working relationship on the development of ICM that would lead towards further discourse in future.
8. Other proposed work programmes include:
- To provide training and knowledge resources at the existing capital market training institutions;
  - To provide technical assistance and cooperation on the development of ICM products; and
  - To organize high impact promotional activities event that can gather industry experts to discuss on potential developments in specific countries/region.

# 1. INTRODUCTION

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- 1.1 COMCEC is one of the three standing committees of the OIC and monitors the decisions on economics and commercial cooperation by the OIC. In September 2011, the COMCEC Capital Market Regulators Forum (COMCEC CMR) was established as a cooperation platform for COMCEC capital market regulatory bodies. Its main focus is to support market development and to reinforce the capabilities of regulatory bodies. Four task forces were created: Capacity Building, Market Development, Financial Literacy, and Islamic Finance.
- 1.2 The Islamic Finance Task Force ("Task Force") aims to increase cross-border and cooperation activities in Islamic finance among the COMCEC CMR Forum Member Authorities which in turn serve to increase the economic and commercial capacity of the Member Authorities and strengthen cooperation possibilities both at global and regional levels. To this end, in leadership of Chair of the Task Force, the Securities Commission Malaysia in cooperation with Task Force Co-Chair, Capital Market Development Authority, Maldives and the CMR Forum Secretariat, Capital Markets Board of Turkey, 'Enhancing Infrastructure for Islamic Capital Market' was selected as the cooperation topic.
- 1.3 At the 2<sup>nd</sup> COMCEC CMR Forum General Assembly Meeting held on 19 September 2013 in Istanbul, the Task Force presented a report on *Enhancing Infrastructure for Islamic Capital Market* ("1<sup>st</sup> Report"). The report covers four segments of ICM infrastructure:
- Legal, Tax and Regulatory Framework;
  - Shariáh Governance Framework;
  - Talent Development; and
  - Products and Services.
- 1.4 The 1<sup>st</sup> Report presented 12 recommendations for developing the infrastructural components of the ICM. The 12 recommendations are essentially broad strategies and initiatives that can be undertaken for developing the infrastructural components of the ICM. These recommendations include initiatives that a country may undertake for its own development. The 12 recommendations are identified in **Table 1**.

**Table 1: Summary of the Recommendations**

<p><b>Legal, Regulatory and Tax Framework</b></p>	<ul style="list-style-type: none"> <li>• Develop a comprehensive and harmonised legal, regulatory and tax framework</li> <li>• Enforce appropriate and effective dispute resolution mechanisms</li> <li>• Implement tax neutrality to create level playing field between conventional capital market and ICM as well as tax incentives to accelerate the development and innovation of ICM products</li> </ul>
<p><b>Shariáh Governance</b></p>	<ul style="list-style-type: none"> <li>• Enforce Shariáh Governance framework to be legally binding and resolve conflict of laws</li> <li>• Promote Best Practices/Code of Conduct for Shariáh Advisers</li> <li>• Promote continuous professional development for Shariáh Advisers</li> </ul>
<p><b>Talent Development</b></p>	<ul style="list-style-type: none"> <li>• Implement comprehensive talent development solutions to meet requirements at all levels</li> <li>• Ensure globally recognised training and education programmes</li> <li>• Focus on applied research and innovation to ensure sustainable growth of ICM</li> </ul>
<p><b>Products and Services</b></p>	<ul style="list-style-type: none"> <li>• Promote ICM products and services as alternative financing and investment</li> <li>• Ensure compliance with internationally acceptable standards applicable to the IFSI</li> <li>• Foster and strengthen international cooperation and co-ordination to facilitate cross-border relationship</li> </ul>

1.5 Out of these recommendations, the 1<sup>st</sup> Report further identified six recommendations that the Member Authorities could co-operate and collaborate in pursuing the development agenda for ICM to spur greater cross-border financial and investment activities that support economic, trade and business linkages. The six potential areas for cooperation and collaboration are presented in **Table 2**.

**Table 2: Areas of Cooperation and Collaboration**

<b>Legal, Regulatory and Tax Framework</b>	<ul style="list-style-type: none"><li>• Develop a comprehensive and harmonised legal, regulatory and tax framework</li></ul>
<b>Shariáh Governance</b>	<ul style="list-style-type: none"><li>• Promote continuous professional development for Shariáh Advisers</li></ul>
<b>Talent Development</b>	<ul style="list-style-type: none"><li>• Ensure globally recognised training and education programmes.</li><li>• Focus on applied research and innovation to ensure sustainable growth of ICM</li></ul>
<b>Products and Services</b>	<ul style="list-style-type: none"><li>• Promote ICM products and services as alternative financing and investment</li><li>• Foster and strengthen international cooperation and co-ordination to facilitate cross-border relationship</li></ul>

1.6 At the 2<sup>nd</sup> COMCEC CMR Forum General Assembly Meeting in September 2013, there were several concerns raised with regard to issues of potential overlapping initiatives by relevant agencies, the need to address individual country needs, etc. The meeting was also informed of the needs to create a centralised information and database on Member Authorities' and its intermediaries' capabilities throughout the Islamic finance value chain in providing particularly ICM solutions as well as collecting information on needs of Member Countries requiring the relevant assistance.

1.7 To address these concerns, the Task Force has distributed a feedback form in January 2014 to address the above needs ("Feedback Form"). The key objectives of this Feedback Form are to seek responses on the six potential areas of cooperation and collaboration as identified in the 1<sup>st</sup> Report and to assist the Task Force in identifying a country specific needs and issues in developing its ICM.

1.8 The Feedback Form was divided into three parts:

- Part A: Feedback on Proposed Recommendations as contained in the Report;
- Part B: Country Specific Needs and Issues; and
- Part C: Capabilities of Members Authorities and its Intermediaries

1.9 Based on the information received in the Feedback Form, the Task Force has prepared this Final Report whereby specific action plan/initiatives may be proposed for implementation.

1.10 The Task Force has received sufficient responses for Part A and B but very low response for Part C. Part C was initially intended to gather feedback from Member Authorities on the availability of services of its intermediaries in Islamic finance which the input would be consolidated in a centralised information database in order to achieve greater coordination and collaboration in the course of developing the ICM. Due to lack of response to Part C, the Final Report only contained the data and analysis for Part A and B only.

## 2. SURVEY RESPONSE

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- 2.1 The Task Force distributed the Feedback Form in January 2014 to address the individual member country's needs and to create centralised information and database on Member Authorities' and its intermediaries' capabilities throughout the Islamic Finance value chain in providing ICM solutions.
- 2.2 Out of a total of 57 Member Authorities under COMCEC CMR, 17 Member Authorities have responded to the Feedback Form, as shown in **Table 3**.

**Table 3: List of Respondents**

No.	Member Authorities & Organization	Country
1.	State Committee for Securities	Azerbaijan
2.	Bangladesh Securities and Exchange Commission	Bangladesh
3.	National Council of Credit/Bank of Central African States-BEAC	Cameroon
4.	Securities and Exchange Organization	Iran
5.	Central Bank of Iraq	Iraq
6.	Jordan Securities Commission	Jordan
7.	Capital Markets Authority	Kuwait
8.	Capital Market Authority	Lebanon
9.	Securities Commission Malaysia	Malaysia
10.	Capital Market Development Authority	Maldives
11.	Securities and Exchange Commission	Pakistan
12.	Capital Market Authority	Palestine
13.	Direction de la Monnaie et du Credit du Senegal	Senegal
14.	Conseil Du Marche Financier	Tunisia
15.	Capital Markets Board	Turkey
16.	Securities & Commodities Authority	UAE
17.	The World Bank	World Bank

- 2.3 It is noted that the 17 responses received represent an additional participation from six Member Authorities and one multilateral institution, from the previous responses received in the 1<sup>st</sup> Report. The analysis and issues discussed have been largely distilled from the Feedback Form and the research conducted by the Task Force.

### 3. SURVEY FINDINGS - PART A (Feedback on Proposed Recommendations)

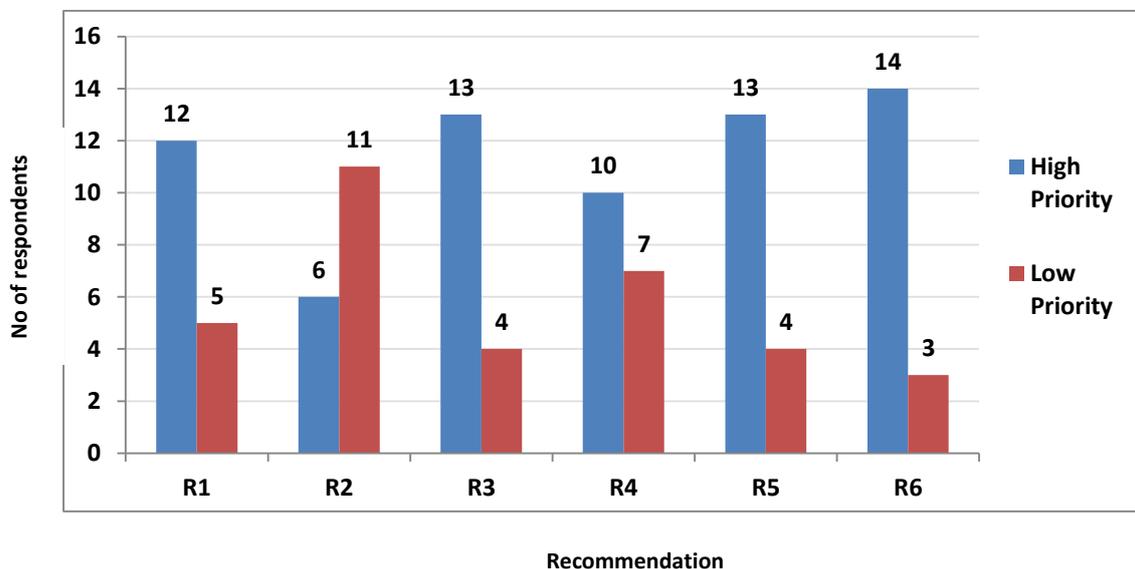
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3.1 This chapter sets out the results of a survey on Feedback on Proposed Recommendations which was distributed to the Member Authorities in January 2014.

3.2 Part A requires the respondent to provide comments/suggestions/improvements based on the 6 potential areas that may present opportunities for the Member Authorities to cooperate and collaborate in developing the ICM. The respondent is required to choose a level of priority (either "High Priority" or "Less Priority") to determine the level of importance.

3.3 Summary of the responses is presented in Chart 1.

**Chart 1 – Summary of Responses in Part A**



Recommendation					
R1	R2	R3	R4	R5	R6
Develop a comprehensive and harmonised legal, regulatory and tax framework	Promote continuous professional development for Shariáh Advisers	Ensure globally recognised training and education programmes	Focus on applied research and innovation to ensure sustainable growth of ICM	Develop and promote ICM products and services as alternative financing and investment	Foster and strengthen international cooperation and co-ordination to facilitate cross-border relationship

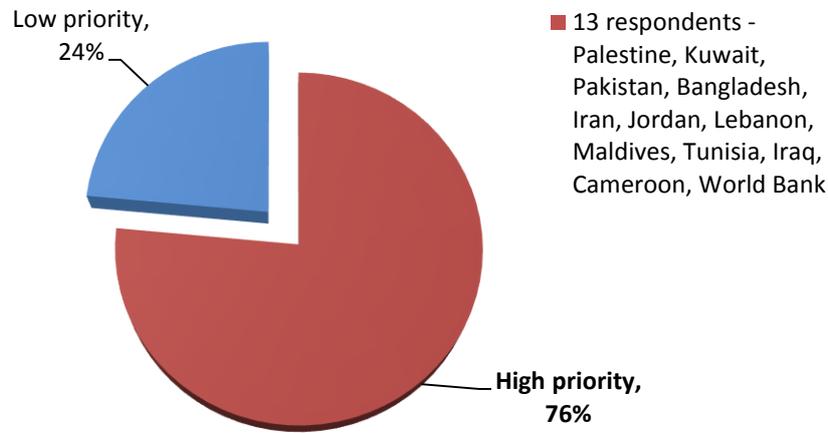
3.4 Based on the chart, the top three 'high priority' recommendations are:

- a) **Ensure globally recognised training and education programmes** (Recommendation # 3 under Capacity Building);
- b) **Develop and promote ICM products and services as alternative financing and investment** (Recommendation # 5 under Products & Services); and
- c) **Foster and strengthen international cooperation and co-ordination to facilitate cross-border relationship** (Recommendation # 6 under Products & Services).

### **'High Priority' Recommendation #1: Ensure globally recognised training and education programmes (under Capacity Building)**

3.5 From the feedback received, it is noted that 76 per cent of the respondents gave the recommendation of ensuring globally recognised training and education programmes as high-priority as one of the means to build a pool of talent with the right competencies in the IFSI (**Diagram 1**). With curriculums based on well-founded pillars of ethics and values that are universally accepted, these programmes would help to drive the development and growth of ICM forward.

**Diagram 1- Respondents on the Recommendation of Ensuring Globally Recognised Training and Education Programmes**



3.6 It was mentioned in the 1<sup>st</sup> Report that the current field of Islamic finance taught at most universities in the world is quite sporadic. Islamic finance education must have a certain benchmark or standard as to what constitutes the minimum level of knowledge that must be acquired before graduates join the industry. Some of the recommended actions from the 1<sup>st</sup> Report are:

- Close collaboration between the academia and the industry so that the training and education programmes will continue to remain relevant;
- The industry (specifically financial institutions) needs to be directly involved in designing the modules and curriculums related to Islamic finance;
- More collaborative efforts by research and training institutions in different jurisdictions to design and offer capacity building modules in key areas across multiple jurisdictions; and
- Setting up of a formal international institution or to engage the existing global accreditation institution to accredit Islamic finance curriculum across the globe to ensure a standardized and a globally recognized curriculum.

3.7 Brief information on current and past/completed initiatives (as provided by the Member Authorities in the Feedback Form) are as follows:

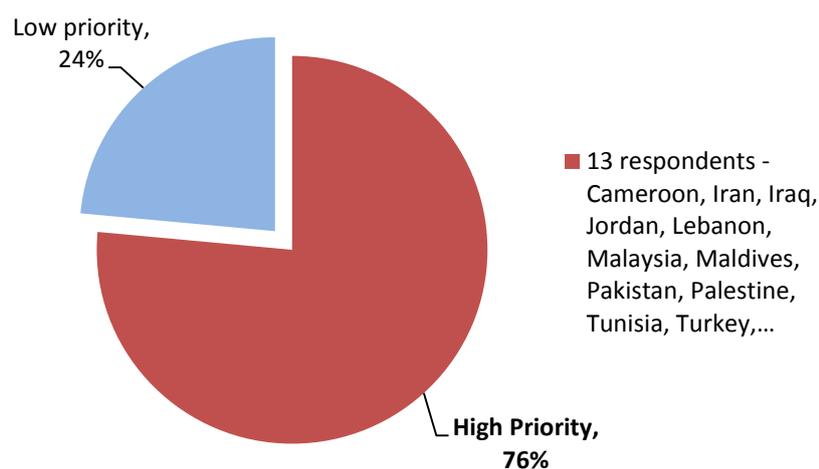
- Bangladesh  
Bangladesh Securities and Exchange Commission has a policy to send its officials to different training and educations programmes
- Cameroon  
Islamic finance is a new form of financing in Cameroon. Hence there is a crucial need for training and education programmes.
- Iran  
Talent development for the country's capital market is really important. In this regard, the Securities Information Dissemination and Services Co. was established to promote related issues in talent development. In addition, there are few universities and research centres offer capital market related fields and courses. We also attended international courses and held an international course on ICM. Research, Development and Islamic Studies Department (RDIS) is established to focus on applied researches in both conventional and Islamic studies. In addition, there is a quarterly publishing for applied researches in RDIS.
- Iraq  
To give high emphasize on training in all areas in banking business taking into account the required procedures for production and administrative development and innovation. This also includes the action plan for far and near objectives attracting innovators with special sponsorship.
- Jordan  
The Islamic financial tools are always developing and growing, and many aspects of them need to be updated with the newest development and training especially in sukuk. The training will be most useful as there has not been any sukuk case in Jordan.

- Kuwait  
Liaising with international regulators and globally recognized training institutions specialized in training for regulators by organizing training events and seminars to build the required skill-set.
- Lebanon  
The lack of qualified human resources is one of the major issues of Islamic finance in Lebanon. It is a new concept and there is no real knowledge in the field yet.
- Maldives  
Together with INCEIF, the country is working to introduce Masters in Islamic Finance Program in Maldives.
- Pakistan  
Securities and Exchange Commission Pakistan has arranged trainings in Islamic Finance including a recent seminar on Islamic financial products and risk management in cooperation with IRTI-IDB. However, there is an urgent need to put in place specific training programs on ICM for the regulator as well as market intermediaries.
- Tunisia  
The CMF of Tunisia took part in several training sessions and workshops organized locally and internationally.
- World Bank  
The World Bank held many workshops, conferences and seminars to facilitate global dialogue on standardization. Some of these events were in collaboration with INCEIF, IDB and IFSB. Many issues were discussed in respect of financial development and developing globally accepted regulatory standards. It targeted industry professionals, regulators and policy makers. World Bank is also planning to provide capacity building programs to a number of countries in collaboration with IDB. World Bank-Global Islamic Finance Centre will also lead a number of programs on capacity building.

## **'High Priority' Recommendation #2: Develop and promote ICM products and services as alternative financing and investment (under Products & Services)**

3.8 Another high-priority area chosen by the respondents is products and services whereby 76 per cent of the respondents indicated that it is important to develop and promote ICM products and services as alternative financing and investments to the conventional finance (**Diagram 2**).

**Diagram 2- Respondents on the Important to Develop and Promote ICM products and services as alternative financing and investments**



3.9 As mentioned in the 1<sup>st</sup> Report, the regions could strengthen the business and investment trade linkages via Islamic finance instruments. At the same time, capital investments among countries in the regions can be enhanced by the availability of Shariáh-compliant structures to deepen and broaden the capital markets which can then serve as a model to develop other regions. Although the ICM products and services may not be readily available in certain countries, the Member Authorities may start using the ICM products and services in available countries as an alternative to existing conventional investment and financing.

3.10 Brief information on current and past/completed initiatives (as provided by the Member Authorities in the Feedback Form) are as follows:

- Cameroon  
In Cameroon, promotion of Islamic Finance products and services is lacking. Nevertheless, some initiatives had taken place in the last two years with the Islamic Corporation for the Development of the Private Sector (ICD) which is working closely with a commercial bank in Cameroon (Afriland First Bank). During a workshop organised on 8th July 2013 in Yaoundé (Cameroon), Islamic finance products and services were presented by the ICD to all the commercial banks and financial institutions, and we are looking forward to develop a framework of cooperation between actors.
- Iran  
The country is focussing on new services and products to promote its capital market. Embedded options, Islamic futures and some other contracts are those provided in the capital market.
- Jordan  
Studies showed that some sukuk structure can be implemented in Jordan, with realistic examples of assets that can be used.
- Lebanon  
This will help both the Islamic financial and capital markets industry in Lebanon as they are still very slow progress compared to the banking sector.
- Malaysia  
Currently, most of ICM products and services are available. To remain competitive and promote Malaysia as world marketplace, the country is expanding its focus to develop and grow ICM market globally.
- Maldives  
Stakeholders attracting programs are carried out and the target is to give free advice and consultancy to four companies on ICM opportunities before the end

of 2014. Currently, consultation to Housing Development Corporation is on-going.

- Pakistan

In Pakistan, the following ICM products as alternative financing and investment avenues have already been developed:

- Islamic banking products
- Shariáh-compliant equities
- Takaful products
- Modaraba
- Islamic mutual fund
- Islamic pension fund
- Sukuk

- Tunisia

ICM products and services is still an infant industry in Tunisia where two ICM products have recently been introduced and regulated in the law: Sukuk and Islamic investment funds.

- Turkey

- With the objective of developing and promoting ICM products, New Lease Certificates Communiqué (2013) sets forth the following provisions to enhance the sukuk instrument as an alternative financing and investment.
  - The scope of underlying assets widened: all kinds of rights and assets.
  - In addition to *ijarah* sukuk, five more internationally well-known sukuk structures are regulated:
    - Lease certificates based on ownership (covered *ijarah/wakala* sukuk true sale to asset liability company)
    - Lease certificates based on management agreement (*ijarah/wakala* sukuk)

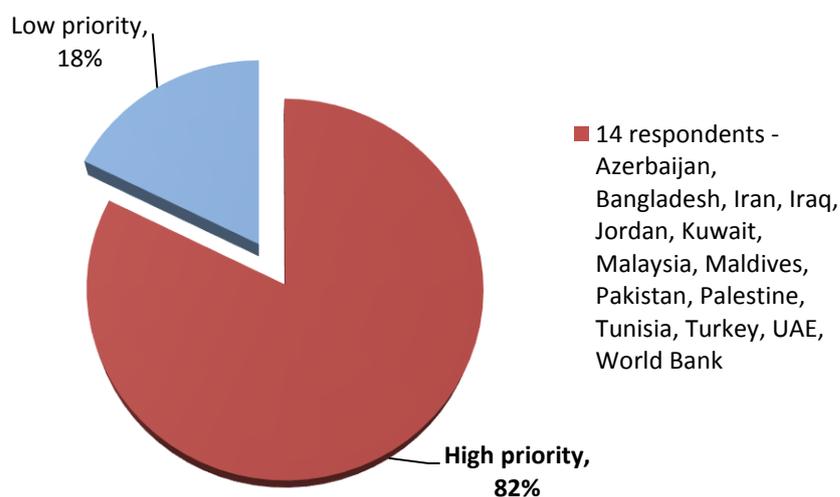
- Lease certificates based on partnership (*musharaka* and *mudaraba* sukuk)
  - Lease certificates based on purchase and sale (*murabaha* sukuk)
  - Lease certificates based on contractor agreement (*istisna* sukuk)
  - Combination of those abovementioned and other structures accepted by CMB of Turkey.
- An asset liability company may issue different sukuk at a given time
    - Commingling risk eliminated as all rights and responsibilities relating to underlying assets and sukuk obligations shall be monitored and reported separately for each issuance.
  - For lease certificates based on ownership, partnership and contractor agreement (*ijarah/wakala*-true sale and *istisna*), the issue amount has been restricted to 90% of the underlying asset's fair value.
  - Determination and use of market value of assets and rights are broadened
  - Investment Funds
    - There are investment funds whose strategies are to invest financial products obeying Islamic principles. These products include lease certificates, precious metal and shares which are included in various Islamic indexes such as Dow Jones Islamic Market Turkey, S&P OIC COMCEC 50 Shariáh Index, BMD Participation Index;
    - In addition, by the revised investment funds CMB Communique, it is allowed to have a new type of fund to be established with sole strategy to invest in Islamic financial products (Umbrella Participation Funds);

- Besides, the revised private pension system regulation allows the pension funds to be established with the sole strategy to invest in Islamic financial products.
- World Bank  
World Bank is currently engaging with many of our client countries to help develop more inclusive financial instruments.

**'High Priority' Recommendation #3: Foster and strengthen international cooperation and co-ordination to facilitate cross-border relationship (under Products and Services)**

3.11 The third high priority area is the need to foster and strengthen international cooperation and co-ordination to facilitate cross-border relationship as indicated by 82 per cent of the respondents (**Diagram 3**).

**Diagram 3 - Respondents on the Need to Foster and Strengthen International Cooperation and Co-ordination to Facilitate Cross-border Relationship**



3.12 The 1<sup>st</sup> IFTF Report recommended the Member Authorities to conduct initiatives and enhance financial linkages to integrate domestic IFSI with regional and international financial systems. By leveraging on such linkages, it will provide a platform for the

countries to articulate their advisory, development and structuring strategies and to discuss capital market opportunities further in the pursuit of a diverse and significant exposure in Islamic finance fundamentally.

3.13 Some of the recommended collaboration include:

- A need for a more intensive international coordination of regulatory approaches and supervisory oversights.
- A need for a system of regulatory mutual recognition that will enable accessibility and offering of investment products across jurisdictions.
- High impact promotional activities by organising events that can gather industry experts to discuss on potential developments in specific countries.

3.14 Brief information on current and past/completed initiatives (as provided by the Member Authorities in the Feedback Form)

- Azerbaijan  
Up to date, State Committee for Securities is cooperating with only two Capital Markets Regulators of COMCEC Member States, based on signed MoUs with Capital Markets Board of Turkey and National Bank of Kazakhstan.
- Bangladesh  
In a globalized world, there is no other alternative but to have mutual beneficial relationship/cooperation among the regulators.
- Iran  
Cross-border relationship is really important. Cross listing, applying Islamic Deposit Receipts and any other relationships are among the priorities.
- Jordan  
It is a very high priority because of the need for cross-border supervision, open market has allowed many issuers to conduct their transactions in

multiple countries; this amplifies the need to close the legal gaps between member countries and unify their regulation standards.

- Kuwait

- Participation in COMCEC
- Participation in IFSB
- Signed bilateral MoUs with other regulators

- Malaysia

- Mutual Recognition Agreement and MoU with other jurisdictions
- Collaborative arrangement with international organisation

- Maldives

Maldives is trying to introduce an Islamic Finance Centre to cater to the needs of the South Asian Association for Regional Cooperation region on Islamic finance. The country is working with Ministry of Islamic Affairs on this.

- Pakistan

SECP has taken following initiatives in strengthening international cooperation:

- ICMs program in Iran held in May annually is attended by at least one officer;
- Officers from SEO Iran have also visited the SECP as part of joint liaison committee to work on Islamic finance;
- The SECP is a member of the COMCEC-CMR and within the forum is a member of the Islamic Finance Task force;
- Additionally, exclusive study visit of Malaysia to study the ICM was conducted by a team in 2013; and
- Asian Development Bank-sponsored seminar on Islamic finance was also attended by some officers.

- Tunisia  
The CMF of Tunisia entered into several MoUs: bilateral and multilateral MoUs (with Morocco, Turkey, UAE, Egypt, France, The IOSCO Multilateral MoU on Consultation, Cooperation and Exchange of information) and is member of a number of regional organizations (Mediterranean Partnership of Securities regulators, French-speaking Institute of Financial regulators, Union of Arab Securities Authorities)
- Turkey  
In addition to cooperating with the COMCEC Capital Market Regulators Forum Islamic Finance Task Force activities, the CMB became an associate member in August 2010 and full member in 2013 to the IFSB which is an international standard-setting organization based in Kuala Lumpur.

In line with strengthening international cooperation and facilitating cross-border relationship, CMB and IFSB have organised a workshop entitled "Facilitating the Implementation of the IFSB Standards" where IFSB trainers have informed participants on the basic concepts of ICMs, main issues regarding interest free securities, the management of Islamic Collective Investment Schemes and Shariah Governance Principles with theoretical aspects as well as case studies.

Furthermore, in October 2013, "World Bank Global Islamic Finance Development Centre" was launched as the World Bank's only representation office on Islamic finance. The Centre is located in Borsa İstanbul premises and has been launched as a result of the cooperation of the World Bank and Turkish Republic Under secretariat of Treasury. Capital Markets Board has seconded its staff to the IFSB and World Bank's Global Islamic Finance Development Centre to support international cooperation and co-ordination work with these institutions.

Finally, CMB promotes post graduate study on Islamic finance for its staff in order to raise skills of its human resources to carry out international cooperation on Islamic finance issues.

- World Bank

World Bank is developing partnerships with global stakeholders and market players to foster knowledge exchange, facilitating global dialogue and capacity development. This includes:

a) Global standard setters (enhancing regulatory regimes):

- IFSB
- AAOIFI
- IDB
- IIFM

b) Research organizations (strengthening the knowledge base):

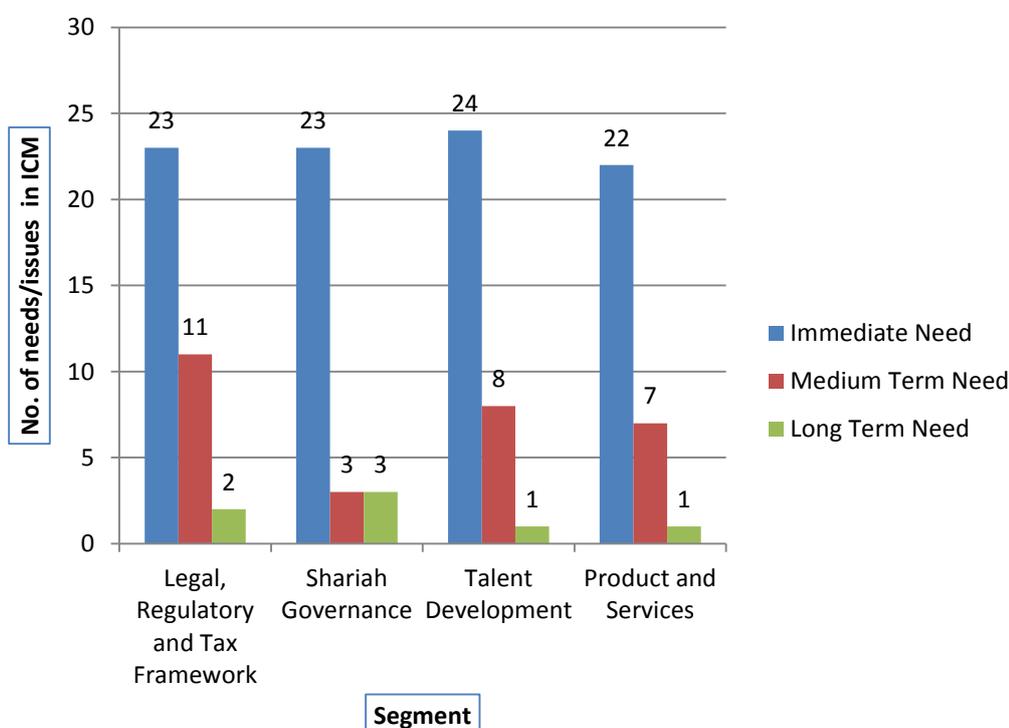
- INCEIF
- OCIS
- SESRIC

c) Market players (product development and innovation):

- Al Baraka Banking Group
- Kuwait Finance House
- Fajr Capital
- Bait Al Mashura

## 4. SURVEY FINDINGS – PART B (Country Specific Needs and Issues)

4.1 This section is intended to gather feedback from Member Authorities on their specific needs and issues in developing ICM within the four segments of ICM infrastructure. These general requirements may refer to specific areas of needs for development, other than the proposed recommendations highlighted in the Report. The respondents are required to indicate areas of needs/issues that are required for development and rank them according to the priorities.



4.2 Based on the chart above, most of the respondents indicated their specific needs which require immediate attention in all four segments of ICM infrastructure (Legal, Regulatory and Tax Framework, Shariáh Governance, Talent Development and products and Services).

4.3 Some of the key immediate needs are:

- a) Legal, Regulatory and Tax Framework
  - Establish legal framework; and
  - Introduce tax framework.
  
- b) Shariáh Governance
  - Develop code of Shariáh governance including the conduct of Shariáh adviser.
  
- c) Talent Development
  - Develop specialised training programmes.
  
- d) Products and services
  - Develop sukuk and Islamic equities; and
  - Conduct applied research.

4.4 Details of the feedback based on “Immediate Need” are as follows:

**a) Legal, Regulatory and Tax Framework**

- Cameroon
  - Adjust the legal and tax framework
- Iran
  - Develop rate floatation for ICM products; and
  - Establish rating agencies in the context of the capital market.
- Iraq
  - Prepare budget according to International Islamic Standards;
  - Prepare Income Statement according to International Standards; and
  - Monitor/supervise rules and regulation

**b) Shariáh Governance**

- Bangladesh
  - Develop Shariáh based product
- Cameroon
  - Sensitize the Shariáh specificities in finance
  - Create Shariáh advisers
- Iran
  - Extend supervisory bodies for Shariáh inside the institutions.
  - Converge ideas between different scholars.

### **c) Talent Development**

- Bangladesh
  - Develop technical capacities of the regulators
- Cameroon
  - Develop capacity building (education and training) on Islamic finance
- Iran
  - Provide more international educational courses and symposiums.
  - Extend relationship with foreign talent experts

### **d) Products and Services**

- Bangladesh
  - Develop Shariáh index
- Cameroon
  - Promote Islamic finance products and services
- Iran
  - Issue more float rate sukuk
  - Converge banking and capital market products within Islamic finance framework
  - Facilitate fixed income sukuk pricing & issuance

## 5. RECOMMENDATION ON WORK PROGRAMMES

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- 5.1 Based on the responses received under the Feedback Report, the Task Force has identified the top three 'high-priority' recommendations which may present opportunities for the Member Authorities to cooperate and collaborate in developing the ICM. The top three 'high-priority' recommendations as follows:
- i. Ensure globally recognised training and education programmes;
  - ii. Develop and promote ICM products and services as alternative financing and investment; and
  - iii. Foster and strengthen international cooperation and co-ordination to facilitate cross-border relationship.
- 5.2 It is noted that developmental objectives differ among COMCEC Member Countries pursuant to their different levels of ICM readiness. For countries with already established capital markets, the focus could be on identifying "low hanging fruits" to further develop their respective ICMs. For countries that are in the process of developing their capital markets, the preferred approach may be to meet local market needs first when establishing an ICM.
- 5.3 Given the different stages of development of capital markets and ICMs among COMCEC member countries, the work that needs to be put into establishing the architecture and infrastructure necessary for the development of ICM within each jurisdiction would vary. The state of ICM in the COMCEC member countries ranges widely from having a well-developed ecosystem to having just initiated the capital market with no exposure to the ICM.
- 5.4 Taking the above into consideration, there is a need for a well-sequenced program of regional initiatives to promote awareness of the ICM for regional development and to identify issues/gaps and areas to work on further, to ultimately achieve regional harmonisation/commonality.

- 5.5 In view of the members' diverse background and development in ICM, as an immediate to medium term approach, regional cooperation could be established to look into the areas of capacity building to create awareness of the ICM for regional development.
- 5.6 Longer-term objectives for majority of these jurisdictions may include facilitating the tax neutrality framework, developing a regional Shariáh governance framework creating harmonisation and uniformity for ICM – including codification of rules, standardised products, issuance documentation and dispute resolution rules.

## **I. Proposed Work Programmes**

### **a) Ensure globally recognised training and education programmes**

- 5.7 Capacity building was identified as a major need. There is a shortage of talents and experts in all areas of ICM and Islamic finance, including Shariáh, accounting, tax and law. This challenge is not isolated to smaller or younger markets, or even to non-Muslim jurisdictions. Survey respondents called for more education, training, professional exchanges, opportunities and platforms to ensure the development of human capacity for ICM and Islamic finance in general.
- 5.8 As mentioned above, a regional cooperation could be established to look into the areas of capacity building such as workshop, specialized course, etc to create awareness of the ICM for regional development. The workshop is intended to be the beginning of closer working relationships on the development of ICM that would lead towards further discourse in future. To enhance the effectiveness, these workshops could be organized together with the international regulators, standard setting bodies and industry on various developmental issues on ICM.
- 5.9 Another aspect of cooperation is in the areas of training and knowledge resources between the existing capital market training institutions. There is a need for more collaborative efforts by various training institutions in different jurisdictions to design and offer a common training programme in key areas across multiple jurisdictions. Furthermore, these training institutions could also go one step further to create

programmes and platforms for industry practitioners to interact. They may leverage on the experience of the established Islamic finance development institutions.

- 5.10 Another form of cooperation between the training institutions is the Train the Trainer programme. This training programme can be designed for trainers from training organisations as well as internal trainers (instructors, team leaders, supervisors) who need to provide structured training and assessments for their target groups. The Train the Trainer programme is highly relevant and effective for participants who are new to conducting training in ICM as well as for those who have experience in conducting training but have not undergone formal training to gain practical training skills in ICM.

**b) Develop and promote ICM products and services as alternative financing and investment**

- 5.11 Countries intending to start or further develop their ICM can also leverage the relationship with the more established ICM markets which possess strong frameworks. In this regard, technical cooperation among capital market regulators can facilitate development of new products, help narrow developmental gaps and facilitate the design of regionally-focused products. Close collaboration among these capital market regulators would be critical to support the private sector in designing and trading new products of regional appeal particularly once the private sector has determined the commercial viability of regional products.

- 5.12 One such example is an issuer from one country may issue sukuk or Islamic Real Estate Investment Trust (iREIT) in another country which possess a strong ICM infrastructure. Members can gain support and leverage on countries with more established ICM markets as the benchmark for other members to refer. The scope of the technical cooperation may comprise (i) Consultancy services, (ii) Study Visit, and (iii) specialized workshop/seminar on specific ICM products.

**c) Foster and strengthen international cooperation and co-ordination to facilitate cross-border relationship**

- 5.13 There is a crucial need to establish regional cooperation and partnership in COMCEC CMR members' level in business and developmental areas of ICM. Given the differing levels of capital market development and readiness amongst COMCEC member countries, some of the initiatives should be implemented bilaterally first and then multilaterally as other countries become ready to join in.
- 5.14 It is also recommended to foster international cooperation as well as collaborate with the relevant ministries and Government agencies, financial regulators, market players in the Islamic finance industry, as well as other multilateral agencies and national regulatory authorities to enhance financial linkages between different jurisdictions.
- 5.15 One possible way to cooperate on this matter is perhaps to hold high impact promotional activities that can convince the relevant authorities to further develop ICM. One of the most effective promotional activities is by organising events that can gather industry experts to discuss on potential developments in specific countries. The gathering would certainly establish business networking that benefit the host countries especially in encouraging greater participation by Islamic banking institutions in offering trade finance facilities to expand cross-border Islamic financial transactions.
- 5.16 Some of the other initiatives that can be undertaken are creating Mutual Recognition Agreement (MRA) among member institutions and exchanging of professionals and experts among COMCEC CMR members.

## II. Summary of the Work Programmes

Proposed Work Programmes	Details
<b>A. Ensure globally recognised training and education programmes</b>	
1) To organize workshop on ICM	<ul style="list-style-type: none"> <li>• Conduct regional awareness program, intellectual discourse, workshops and seminars, culminating in regional conferences on ICM</li> <li>• Possible collaboration with multilateral institutions, international regulators, standard setting bodies and industry on issues on ICM developmental agenda</li> </ul>
2) To provide training and knowledge resources at the existing capital market training institutions	<ul style="list-style-type: none"> <li>• The securities industry training bodies could craft a common training programme that caters to different levels of industry practitioners.</li> <li>• These training institutions could also conduct train the trainer programme by leveraging on the experience of the established ICM training institutions.</li> </ul>
<b>B. Develop and promote ICM products and services as alternative financing and investment</b>	
3) To provide technical assistance and cooperation on the development of ICM products (e.g sukuk)	<ul style="list-style-type: none"> <li>• Technical assistance may be in the form of the consultancy services to give advice on a deep and practical understanding of the techniques and methodologies for the issuance of ICM products.</li> <li>• The scope of the technical assistance may also involve study visit and specialized workshop/seminar on specific ICM products.</li> </ul>
<b>C. Foster and strengthen international cooperation and co-ordination to facilitate cross-border relationship</b>	
4) High impact promotional activities by organising events that can gather industry experts to discuss on potential developments in specific countries.	<ul style="list-style-type: none"> <li>• Apart from creating awareness on ICM, organising high impact promotional activities can gather industry experts to discuss on potential developments in specific countries.</li> <li>• Encourage public-private sector collaboration and intensify networking between Member Authorities for business opportunity matching</li> </ul>

### III. Proposal for Workshop on ICM

A regional cooperation could be established via a workshop on ICM to look into the areas of capacity building to create awareness of the ICM for regional development. The workshop can be divided into 2 parts:

a) **Pre-workshop** to raise level of awareness and education on ICM

- Workshop will commence with the fundamentals to benefit member countries with minimal exposure to ICM before proceeding to have more detailed discussions on operational and regulatory issues. Some of the proposed subjects include:

- Building blocks for development of ICM
- Islamic Finance and Shariáh
- ICM Products and Services

b) **Full workshop** as a platform for discussion and clarification, and the sharing of experiences through case studies, etc. based on the proposed topics to be identified.

- i. Selected topics to be focused towards discussing issues, sharing of experiences and identifying areas where regulators and industry can further work on;
  - Identification of topics will be based on the feedback received from member countries on the survey questionnaire that will be sent out prior to the workshop.
- ii. Participants would include regulators, industry practitioners, Shariáh experts, etc.
- iii. The speakers and respondents of the workshop would have all the technical requirements;
- iv. Outcome of discussions and proposals would be compiled and will be used for subsequent follow-up implementation programmes and the potential areas that can be undertaken further as follows:

- Raising level of awareness of ICM among regional countries;
- Having a consensus on commonality (harmonization or recognition) of ICM practices (Shariáh, legal, accounting, tax) within region;
- Facilitating development of regulatory framework;
- Creating ICM products as new asset class for investors in the region;
- Identifying potential markets for ICM products; and
- Enabling efficient cross-border distribution of ICM products.

## 6. CONCLUSION

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6.1 The Task Force has identified the top three 'high-priority' recommendations which may present opportunities for the Member Authorities to cooperate and collaborate in developing the ICM. The top three 'high-priority' recommendations as follows:

- i. Ensure globally recognised training and education programmes;
- ii. Develop and promote ICM products and services as alternative financing and investment; and
- iii. Foster and strengthen international cooperation and co-ordination to facilitate cross-border relationship.

6.2 As a follow up to these recommendations, specific action plan/initiatives are being proposed for deliberation and/or implementation. Given the different priorities and national objectives that come into play, a possible approach would be to take on the low hanging fruits, pursuing shorter-term initiatives and pursuing a majority-vote approach.

6.3 A majority of the member countries recognise the importance of capacity building and talent development, and that a regional initiative must be put into place, which could be undertaken via regional cooperation.

6.4 Therefore, as response to the above needs of the Member States, the Project entails two areas of development:

- Conducting a capacity development programme for the regulatory and supervisory authorities in ICM through two specialized workshops on the development of ICM to promote awareness and to identify issues/gaps and areas to work on further; and
- Preparing reports covering country assessment, outcome of discussions and proposals from the workshops which will be used for subsequent follow-up implementation programmes as well as policy recommendations.

6.5 For this purpose, a regional workshop on ICM can be organized to foster a closer working relationship on the development of ICM that would lead towards further discourse in future.

6.6 Other proposed work programmes include:

- To provide training and knowledge resources at the existing capital market training institutions;
- To provide technical assistance and cooperation on the development of ICM products; and
- To organize high impact promotional activities event that can gather industry experts to discuss on potential developments in specific countries/region.

6.7 It is the intention of the Task Force that the proposed specific action plan/initiatives will spur greater cross-border financial and investment activities that support economic, trade and business linkages as well as to foster greater collaboration and seek ways to overcome significant disparities across jurisdictions to create an effectively borderless environment for Islamic finance.