

## **STATUTE FOR ISLAMIC FINANCE TASK FORCE**

### **CONCEPT**

Islamic Finance with its growing importance in the global financial system, continues to grab attention of both Muslim and non-Muslim countries with its own features. Islamic financial products and services opens up new prospects for countries and businesses because of the opportunities it offers for all financial and non-financial sectors.

Taking into account the Islamic Finance as the fast-growing niche of financial markets and the advanced state of some COMCEC Member States' markets in terms of Islamic finance, Task force for Islamic Finance will serve as a proper platform that member states may harness their respective know-how and experiences about interest free financial instruments.

### **MANDATE**

The mandate for this TF had been discussed and decided through consensus by the delegates at the September 2012 Forum meeting. In this context, the delegates considered the following issues as essential to the TFs mandate.

- **Chair/Co-chair for the Task Force**

Chair/co chair for the Islamic Finance Task Force is elected by consensus at the General Assembly of the COMCEC CMR Forum. The terms of task force chairmanship would be for one year however this can be changed for two years term at the annual General Assembly meeting.

In coordination with the Forum Secretariat, Chair and Co-Chair determines the topics for co-operation to be pursued as the main work of the Task Force.

- **Working procedures**

Chair and Co- Chair may select some of the cooperation proposals set out in this Statute or they may also choose to work on a different topic relevant with the subject matter of the Task Force.

In case more than one topic is determined for co-operation, prioritizing the topics would be important therefore Task Force Chair and Co-chair have to set a target and a timetable for the task force workings. If the Task Force is working on more than one issue then establishing the working groups would be in the responsibility of TF chair/co-chair. As a general argument for the task force, number of working groups would depend on the topics the task force covered. And it would also be dependent the way task force organizes its work.

A member authority can be a member in more than one working group in the Task Force. The

Secretariat of Forum shall create a special e-mail account for this TF in order to facilitate the sharing of information and experience among members.

- **Co-operation Tools**

Preparing surveys, evaluating survey responses, drafting need-gap analyses and guidance reports, organizing conferences, training seminars for member authorities, establishing an information database for researchers should be considered as co-operation tools.

- **Meeting arrangements**

TF physical meetings shall be twice a year. The number of meetings may also depend on the workload and availability of Task Force members. One of the meetings will be held in Istanbul a day before the general meeting (General Assembly) of the Forum. The second meeting will be held at an appropriate date and place decided by the chair/co-chair of the Task Forces and the Forum Secretariat. Also the chair and co-chair will decide how often they would meet electronically.

- **Reporting requirements**

Quarterly reporting; the Task Force Chair/Co-Chair should report to the Forum Secretariat four times a year regarding the outputs of their workings.

- **Communication arrangements**

Forum website should be used as a tool for effective communication.

COMCEC CMR Forum website shall be a tool for sharing of task force working documents, information and other related documents. Every member authority will have the opportunity to promulgate some of their important country-specific developments/information at the website.

- **Membership**

Every member authority can be a member of the Task Force. Members should designate a contact person and notify to the Forum Secretariat.

This Mandate is not intended to create any legal rights or obligations.

## **POSSIBLE CO-OPERATION PROPOSALS FOR ISLAMIC FINANCE TF**

- **Concept and Contracts in Islamic finance;**

According to Islamic rules (sharia), Islamic financial products are based on specific kinds of contracts. These Sharia-compliant contracts promote productive economic activities without infringing key Islamic principles as some conventional financial products do. For

understanding the structure of the most important Islamic finance contracts, as used in project finance transactions such as Murabahah, Tawarruq, Musharakah, Wakalah, Ijarah, Salam and Istisna will be reviewed under this task force.

- **Infrastructures and Legal Aspects of Islamic Asset Securitisation**

Islamic Asset Securitization can be the main vehicle for the development of modern Islamic financial system. The effective Islamic asset securitisation will serve as a powerful tool to mobilize funds from the market which will certainly strengthen the operation of Islamic financial industry. Achieving the soundness and steadiness (stability) of the Islamic finance industry, Islamic asset securitisation plays an important role. A great number of legal issues arise from the challenging need to assess from securitization side under conventional laws and shari'ah rules and principles that underlie all Islamic Asset Securitisation issues. This contribution as a challenge for the whole global Islamic finance industry as this industry is growing rapidly but where else the legal and regulatory framework is still slow in catching up.

- **Approaches on Accounting and Auditing of Islamic Finance;**

Developing unique accounting and auditing standards for the dissemination of certain standardized information about Islamic Finances turns into a necessity. Islamic financial accounting and auditing methods and principles have to be carefully distinguished from their conventional counterparts. For a better appreciation of accounting issues, it is appropriate to highlight the basic financing and investment structure of typical Islamic financial markets as adopted by the accounting standards.

- **Prudential Issues Related to Islamic Capital Market Products;**

Islamic finance is astonishing to realize how far and fast Islamic finance has come and how well it has managed to meet the challenges it faced in last years. The crises we have been witnessing in the international financial system have set the stage for Islamic finance to demonstrate its viability as potentially a genuine alternative global financial system. With this approach Islamic capital market products have to review for preserving its position in the financial system.

- **Minimum Disclosure Requirements on Islamic Financial Instruments;**

Investors especially who choose Islamic finance instruments are sensitive and need to reach completely shariah compliant instruments as well as conventional disclosure rules. In this respect details of the disclosure requirements are highly important for operational mechanism of the Islamic financial system. Benefits of global harmonization of disclosure standards relating to Islamic Capital Market enhance the trust of operation and gain more attractiveness to investors to the system.

- **Understanding Liquidity Issues in Islamic Finance;**

In conformity with Islamic finance nature, markets have to build up their own genuinely Islamic financial instruments. Unless, it cannot achieve the dynamism of a system that provides security, liquidity, and diversity needed for a globally accepted financial system which would be a genuine alternative to the present debt-interest-

based international financial system. Liquidity is probably the most needed issue to achieve in the dynamism of a Islamic financial system.

- **Liquidity Management in Islamic Finance;**

Liquidity management appears to be one of the most crucial problems of the Islamic finance industry worldwide. Unlike their conventional counterparts, many Islamic financial institutions currently lack access to Sharia'a compliant short term liquid investment markets and financial instruments with which to manage excess liquidity or liquidity shortages. With TF work it is possible to explore the liquidation issues, problems and solutions which help to overcome Islamic Financial Institutions in this respect.

- **Regulatory Harmonization and Reviewing the Country Legislations Under Shariah Frames;**

Regulatory harmonization offers many benefits to both regulatory authorities and the capital markets and has a positive impact for the protection of investors. Through the development of harmonized legislations, regulatory authorities strive for streamlining the regulatory assessment process for new mechanisms; reduce the development times and resources needed for instrument development. Cross-border linkages in Islamic Finance and Country presentations; Cross-border linkages in Islamic Finance increase significantly over time and have become more complex. Main aim is to map and explain the drivers of cross-border financial linkages and their macroeconomic consequences and harmonization of Islamic capital market regulations among the COMCEC member states.

- **New Perspectives on Islamic Microfinance;**

Islamic microfinance is becoming an increasingly popular mechanism for alleviating poverty, especially in developing countries around the world. The concept of Islamic microfinance adheres to the principles of Islam and is a form of socially responsible investing. It primarily relies upon the provision of financial services to the poor or developing regions which are subject to certain conditions laid down by Islamic jurisprudence. And it represents the merging of two growing sectors: microfinance and the Islamic finance industry.

- **Enhancing Improvement on Financial Infrastructure of Islamic Finance;**

Taking into consideration the potential and growing importance of Islamic finance bring with its trustworthy known and mechanisms. Regulators are serious about enhancing to financial infrastructure or establishing well designed Islamic financial markets. However enhancement of efforts is extremely important to set up better financial infrastructure nationally and globally to ensure the soundness and stability of competitiveness and utilize for the extensive source in the finance world.

- **Regulatory and Capital Adequacy Implications**

Because of accelerating globalisation and integration of the financial markets, regulatory acts show their effects both economically and socially in a depth manner.

According to those risk based approaches, determining capital adequacy requirements, effects to the relevant sectors (such as insurance etc.), assessment of the data and setting up a link between enforcement and analysed data.

A proposal which proposed during COMCEC 1st Capital Market Regulators Forum is given below;

**- Cooperation of Shariah Advisory Committees;**

Cooperation of Shariah Advisory Committees would be very helpful on controversial Islamic finance issues underlining that all of resolutions and capital market subjects would be an issue for those shariah boards. In details of proposal each shariah board how engage with one another would be probably discussed at the Task Force and the implementation would come true.

**REGIONAL /INTERNATIONAL ORGANISATIONS**

The Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), which was founded as a subsidiary organ of the Organisation of Islamic Cooperation (OIC) and Islamic Development Bank (IDB)\* are observer members of the Islamic Finance TF.

\* IDB's request to join the TF as an observer member at the 2nd General Assembly of the COMCEC CMR Forum meeting in 19 September 2013 was accepted by the delegates of the General Assembly.