

POLICY RECOMMENDATIONS OF THE 10TH MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP

The COMCEC Financial Cooperation Working Group (FCWG) has successfully held its 10th Meeting on March 29th, 2018 in Ankara, Turkey with the theme of “The Role of Sukuk in Islamic Capital Markets”. During the Meeting, FCWG made deliberations on the role of Sukuk in Islamic capital markets. Accordingly, the participants have come up with the following policy recommendations.

Policy Recommendation 1: Developing an Enabling Legal and Regulatory Framework for Islamic Capital Markets and Promoting Solid Collaboration among the Key Market Stakeholders to improve the ecosystem for Sukuk issuance.

Rationale: Specific legal and regulatory framework along with robust market and infrastructure conditions play a key role in the development of Islamic Capital Markets (ICM) as well as sukuk as its core component. Based on the findings of the research report, each jurisdiction adopts its own strategy to promote Islamic finance and overcome inherent risks. In order for the smooth development of the ICM and to have a supportive ecosystem for sukuk issuance, the concerted efforts of key market stakeholders are quite important as well.

Policy Recommendation 2: Improving Market Infrastructure and, where needed, the Existing Tax Framework for Enhancing Sukuk Issuance.

Rationale: The existence of a strong market infrastructure coupled with an enabling tax environment is one of the basic building blocks for sustaining long-term capital market growth. The progress of the Islamic capital markets to establish a compelling value proposition for market instruments will create a successful landscape for sukuk issuance as well. Hence, in order to promote sukuk issuance, there is a need for strengthening domestic Islamic capital markets through maintaining Tax neutrality or where needed improving the existing tax framework and the reforms to enhance market infrastructure (e.g. cost competitiveness, listing and approval process, tradability and transparency).

Policy Recommendation 3: Developing a Sustainable Liquidity Base to Support Demand for Shariah-Compliant Assets, and Facilitating Diversification of Market Players on the Demand Side of the Sukuk Market.

Rationale: One of the performance indicators of a healthy financial system is supporting non-bank financial intermediaries (NBFIs) mainly where such institutions are needed to complement the role of the banking sector, to create the liquidity base to promote demand for capital market products. Additionally, development of cornerstone investors with a specific appetite for Islamic assets (e.g. pilgrimage funds, waqf funds) would create extra demand for Shariah-compliant assets and potentially bring better cost-competitiveness (i.e. access to a wider investor base). Setting the stage to encourage the development of domestic wealth is equally important to develop a strong NBFIs investor base. The responsibility then resides with the respective government to provide the necessary support (e.g. compulsory pension schemes, incentives for retirement investment schemes, etc.) to strengthen wealth creation within its domestic financial system.

Policy Recommendation 4: Promoting a Sustainable Supply of Sukuk Issuance from the Private Sector in order to Foster Diversification of Industry Participants on the Supply Side and Expand the Benchmark Yield Curve.

Rationale: Based on the research report, the performance of the private sector is one of the most important indicators to track the pulse of a local sukuk market. Key to building a sustainable supply of private sector sukuk typically starts with a sovereign benchmark yield curve for corporate issuers to follow. Commercial motivation will always be the compelling reason for issuers to choose sukuk instead of conventional bond issuance. Identification of suitable state-owned entities or government-linked companies to become sukuk champions in promoting innovative structures can be the starting point to support the expansion of the benchmark yield curves.

Policy Recommendation 5: Developing a Seamless Shariah Governance Process for Facilitating Faster Turnaround Time for Sukuk Issuance, Improving Clarity of Sukuk Structures, Promoting Product Innovation, Building Market Confidence and Increasing Market Awareness among the Industry Practitioners.

Rationale: A seamless Shariah governance process incorporated into the financial system is important to make the Islamic capital market products attractive for all market players. There are different methods among countries in terms of the implementation of Shariah governance framework: while some countries adopt a centralized approach where a national Shariah committee is set-up within the regulatory bodies (e.g. central bank, securities commission, etc), some other countries implement a harmonized approach which is accepted by in-house Shariah advisers. Even though reference can be made to AAOIFI and IFSB Shariah standards, the final decision is still based on the domestic Shariah advisers that reside in each OIC member country. Ultimately, key stakeholders would need to decide which method fits industry requirements as well as provides faster turnaround time for sukuk issuance, improves the clarity of sukuk structures, promotes product innovation, builds market confidence and increases awareness among the industry practitioners.

Instruments to Realize the Policy Recommendations:

COMCEC Financial Cooperation Working Group: In its subsequent meetings, the Working Group may elaborate on the above-mentioned policy areas in a more detailed manner.

COMCEC Project Funding: Under the COMCEC Project Funding, the COMCEC Coordination Office issues calls for project proposals each year. With the COMCEC Project Funding, the member countries participating in the Working Groups can submit multilateral cooperation projects to be financed through grants by the COMCEC Coordination Office. For realizing above-mentioned policy recommendations, the member countries can utilize the COMCEC Project Funding facility. These projects may include organization of seminars, training programs, study visits, exchange of experts, workshops and preparation of analytical studies, needs assessments and training materials/documents, etc.