



**Standing Committee  
for Economic and Commercial Cooperation  
of the Organization of Islamic Cooperation (COMCEC)**

**Proceedings of the 10<sup>th</sup> Meeting of the  
COMCEC Financial Cooperation Working Group  
“The Role of Sukuk in Islamic Capital Markets”**



**COMCEC COORDINATION OFFICE**

**May 2018**



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**PROCEEDINGS OF THE 10<sup>TH</sup> MEETING OF THE  
COMCEC FINANCIAL COOPERATION WORKING GROUP  
ON**

**“THE ROLE OF SUKUK IN ISLAMIC CAPITAL MARKETS”**

(March 29th, 2018, Ankara, Turkey)

**COMCEC COORDINATION OFFICE**

**May 2018**

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## Introduction

The 10th Meeting of the COMCEC Financial Cooperation Working Group was held on March 29th, 2018 in Ankara, Turkey with the theme of "The Role of Sukuk in Islamic Capital Markets". The Meeting was attended by the representatives of 20 Member States, which have notified their focal points for the Financial Cooperation Working Group. Representatives of the COMCEC Coordination Office, IDB, SESRIC, Secretariat of OIC Member States' Stock Exchanges Forum, and Secretariat of the COMCEC Capital Markets Regulators Forum, AAOIFI, IIFM and Halk Invest have also attended the Meeting.<sup>1</sup>

At the outset, the representative of the COMCEC Coordination Office informed the participants about the financial outlook of the OIC Member Countries. It was followed by the presentations made by representatives of ISRA and RAM Ratings on the role of Sukuk in Islamic capital markets.

The participants elaborated the role of Sukuk in Islamic capital markets through focusing on the research report titled "The Role of Sukuk in Islamic Capital Markets"..

The Representatives of the Member States shared their experiences, achievements, and challenges regarding developing Sukuk market in their respective countries. The participants had the chance to discuss the policy options for enhancing the cooperation in this important field in a moderation session.

The efforts exerted by international institutions and private sector on Islamic finance were also reflected the discussions.

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<sup>1</sup> The list of participants is attached as Annex 1.



## 1. Opening Session

In line with the tradition of the Organization of the Islamic Cooperation (OIC), the Meeting started with the recitation from the Holy Quran. At the outset, Mr. Selçuk KOÇ, Director at the COMCEC Coordination Office introduced the COMCEC and its activities as well as the Programme of the meeting briefly.

Mr. Ali Raza SYED, Joint Director at State Bank of Pakistan, as the Chairperson of the Meeting, introduced himself and thanked all the participants and made a short opening speech.

## 2. Financial Outlook of the OIC Member Countries

Mr. Cafer BİÇER, the financial sector specialist at the COMCEC Coordination Office, presented the main findings of the Financial Outlook of the OIC Member Countries 2017. Mr. BİÇER underlined that the Financial Outlook was prepared to draw a picture on the recent developments on financial institutions and markets in the OIC Member Countries. The report, as presented, covers three topics: recent global economic and financial developments; financial developments in the OIC countries; and Islamic finance. The presentation has been prepared and presented in line with the structure of the report. The following paragraphs will briefly mention the findings of the report. While preparing the report, the various sources of information have been used, among them are the World Economic Outlook of the IMF, the World Bank database, the UN reports etc. to especially analyzing financial characteristics of the OIC countries.

At the outset, Mr. BİÇER shared the findings of the report on the recent economic and financial developments in the World with a special emphasis on the OIC member countries. In this regard, major macroeconomic developments including GDP growth rates, inflation, world trade developments, exchange rates etc. have been analyzed to understand latest developments in the world markets. While conducting economic and financial analysis, the countries have been classified according to the World Bank classification based on income levels. Additionally, the same classification has been applied to the OIC country groups considering data availability. MR. BİÇER highlighted that the findings of this chapter revealed that the World economy regained growth resilience in 2017 after a weak growth of 2.4 percent in 2016 which is the slowest rate since the Great Recession of 2009. The prospects for the 2018-2019 period is also expected to be positive in terms of growth. The OIC countries are also expected to follow the similar trend with the world average in this period. The positive growth prospects are expected to pave the way for favorable forecasts for other indicators such as unemployment rates, inflation etc. during the same period.

Mr. BİÇER expressed that the second chapter focuses on more detailed analysis on the financial developments on the OIC member countries. This part used World Bank's Global Financial Development Database. It is presented that the following four characteristics of financial institutions and markets have been used to measure and benchmark financial systems in the OIC countries: (1) Financial Access: the degree to which individuals can and do use financial institutions and markets, (2) Financial Depth: the size of financial institutions and markets, (3) Financial Efficiency: the efficiency of financial institutions and markets in providing financial services, and (4) Financial Stability: the stability of financial institutions and markets. He mentioned that these four characteristics of financial institutions and markets are used to capture the features of financial systems and to provide the empirical shape of the financial development in the OIC countries.

Mr. BİÇER stated that, in the report, OIC Member Countries have been categorized in four major groups according to the World Bank Income Grouping Methodology: OIC-Low income group; OIC-Lower middle income group; OIC-Upper middle income; and OIC-High income group. The performance of all these groups along with the OIC average and world average has been analyzed by using the following indicators each falling under the characteristics of depth, access, efficiency, and stability: (i) Depth: private credit by deposit money banks to GDP, deposit money banks' assets to GDP, stock market capitalization, stock market total value traded to GDP; (ii) Access: bank accounts per 1,000 adults, bank branches per 100,000 adults, and Market Capitalization Excluding Top 10 Companies to Total Market Capitalization; (iii) Efficiency: bank lending-deposit spread, bank return on assets, bank return on equity; (iv) Stability: Bank

nonperforming loans to gross loans, bank capital to total assets, bank regulatory capital to risk-weighted assets.

Mr. BİÇER has presented the figures highlighting the findings of each indicator for the OIC country groups. In terms of financial depth, the OIC countries have shown significant fluctuations among various income groups over the selected period. While the high income group and upper-middle income group countries have performed better than the other groups as well as from the world averages. Over the years, for all indicators, there has been a trend of improvement which is a good sign of financial development in the OIC member countries. As for the financial efficiency, the OIC averages for the selected indicators have been realized close to the world averages. He argued that the findings of the indicators under this characteristic clearly show that financial access increases in parallel to the economic development and income level in any country. The high and upper middle income groups of OIC countries have performed much better than the other groups. Regarding the efficiency characteristic, the OIC average has performed slightly better than the world average over the selected period. While the high and upper middle income group countries performed better than the world average, the low income segments need further support to improve. He mentioned that the selected indicators under the characteristic of stability reveal that the OIC averages are hovering around the world average while high and upper middle income country groups have performed better than the world average.

Subsequent to the above mentioned analysis, Mr. BİÇER touched upon the recent developments in Islamic finance briefly since it is related to the main theme of the 10th Working Group of the COMCEC. After mentioning the main principles of Islamic finance, recent developments taking into account the sub-segments of the industry namely banking, capital markets, and insurance have been presented to shed light on the size, regional allocation and potential of each sub-segments. It is highlighted during the presentation that Islamic banking has the lion share in the sector and its assets valued at around USD 1.5 trillion in 2016 representing approximately 79% of the industry's total assets. The sukuk market has expanded to new regions in recent years with the bulk of issuances coming from sovereign and quasi-sovereign entities. Although takaful (Islamic insurance) has a small volume and it is relatively underdeveloped segment of Islamic finance, its popularity has increased in recent years and becoming an important component of Islamic financial industry.

### 3. Overview of the Islamic Capital Markets and Sukuk

Dr. Marjan MUHAMMAD, Head of Research Quality Assurance Office, International Shari'ah Research Academy for Islamic Finance (ISRA) made a presentation namely overview of the Islamic capital markets and sukuk, which covers Chapters 1, 2 and 3 of the report.

At the outset, Dr. MUHAMMAD briefly outlined the scope of her presentation which covers 5 areas: (i) Introduction; (ii) Role of sukuk in ICM; (iii) Key success factors in developing a sukuk market; (iv) Global development of sukuk structures, issuances and investment; and (v) Key issues and challenges in developing sustainable sukuk markets.

Dr. MUHAMMAD clarified the main objective of the research, i.e. to analyze the role of sukuk as an instrument for capital market development and resource mobilization, and as an alternative financing tool for the economic development of the public and private sectors. The study covers 3 main areas:

1. The key building blocks in developing a sukuk market, including examining the theoretical and legal natures of sukuk, the institutions involved in developing the sukuk market, the parties involved in sukuk issuance, and the requisite conducive environment.
2. Comprehensive assessment of sukuk structures, issuances and investments, including topics and challenges vis-a-vis operational aspects, such as legal and regulatory issues, Shariah governance, innovation in sukuk structuring, the nature and application of sukuk structuring techniques, risk analysis, rating and pricing.
3. Case studies of sukuk development in 6 OIC and non-OIC countries, including the growth of their sukuk markets, analysis of their sukuk issuances, structures and investments, the challenges and drivers affecting the development of the sukuk market, and policy recommendations to address the issues arising and spur the growth of the sukuk market.

Dr. MUHAMMAD explained that the study adopts the qualitative methodology which relies on desktop research. She underlined that desktop research involved the review of written literature, information, documents, country experiences, practices and works of relevant international institutions. She added that open sources of relevant national institutions; data analysis of industry and economic reports and macroeconomic data were also used. During the desktop research, they assessed information on the market shares of various segments in the Islamic financial markets, including sukuk, provided a comprehensive assessment of sukuk structures and issuances across jurisdictions by different entities – corporate, quasi-sovereign and sovereign. In addition, the study utilized online survey, semi-structured interviews which were conducted via face-to-face meetings and phone calls with various stakeholders of the sukuk market such as issuers, lead arrangers, investment bankers, investors, legal advisers and regulators.

Dr. MUHAMMAD discussed 5 main phases of sukuk evolution which include (i) Classical use of sukuk in the 1<sup>st</sup> century during the Umayyad Caliphate and *esham* during the Ottoman Empire; (ii) Initial modern attempts to develop sukuk (i.e. prior to 1990s); (iii) Early sukuk issuance (i.e. 1990-2000); (iv) Emergence of the sukuk market (2001-2016); and (v) Expansion of the sukuk market (2017-onward).

Dr. MUHAMMAD shared with the participants the global outlook of Islamic finance industry as of-2017. The Islamic banking continued to dominate the industry with USD1,855.0 billion representing 76.8% of the total Islamic finance market share. Meanwhile, sukuk ranked second with the total outstanding sukuk of USD396.0 billion as at the same date, accounting for 16.4% of the entire market. The CAGR of Islamic finance assets from 2012 to 2017 stood at 7.4% with the total assets of USD2,416.0 billion as of 2017.

She further gave a snapshot of the global sukuk market (as at end-2017), in which the global sukuk issuance increased 45.4% to USD105.6 billion from USD72.6 billion in 2016. In 2017, the GCC sukuk issuance improved significantly by 144.5% to USD46.9 billion from USD19.2 billion in 2016, driven by higher issuances from the public sector jumping to USD31.9 billion from USD3.7 billion, of which Saudi Arabia's market share stood at 77% (or USD24.6 billion). On the private sector, Malaysia and the GCC hold the highest market share. As at end-2017, Malaysian corporates represented a dominant 60.0% (or USD26.3 billion) followed by Saudi Arabia at 16.2% (or USD7.1 billion) and UAE at 9.0% (or USD3.9 billion) of total private sector issuance.

Then, Dr. MUHAMMAD delineated the following 6 key stakeholders in developing a sukuk market:

1. Government: Promote the efficient use of domestic wealth through financial intermediaries
2. Regulators: Attract foreign investors and strengthen the liquidity structure of the domestic capital markets
3. Exchanges: Generate confidence among existing and potential investors
4. Service providers (investment banks, securities companies, advisory houses, brokers, traders, rating agencies): Stimulate activity and product development in both the sell and buy sides
5. NBFIs: Develop a strong market appetite for long-dated debt securities and encourage project-based funding
6. Financial institutions: Promote value creation through capital-market activities to enhance shareholder value

In addition, she explained about 3 main international institutions that are central in developing the sukuk market, i.e. Islamic Development Bank (IDB), International Islamic Liquidity Management (IILM) and the World Bank.

Next, Dr. MUHAMMAD underlined 5 critical success factors for a sustainable sukuk market, i.e. (i) cohesive collaboration with key market players; (ii) vibrant ecosystem; (iii) intermediation of domestic financial resources; (iv) sustainable supply of private sector sukuk; and (v) Shariah governance framework.

Dr. MUHAMMAD continued her presentation by discussing the global development of sukuk structures, sukuk issuances and sukuk investment.

1. Sukuk structures: *Ijarah*-based sukuk constitute a large portion of sovereign issuances in most jurisdictions. Nevertheless, the requirement of having to secure available unencumbered assets has pushed the commercial decision by governments and corporates to adopt *wakalah* contracts.
2. Sukuk issuances in the Arab region: Due to persistently weak global oil prices, Arab

countries have been actively issuing both local-currency (LCY) and foreign-currency (FCY) denominated sovereign sukuk to finance their budget deficits. In developing Arab countries' sukuk markets, consideration should be given to the large infrastructure funding gap that has historically been funded by governments and commercial banks. Arab countries' annual infrastructure funding gap is USD60.0 billion to support the development of transportation, electricity, information and communications technology (ICT) and water and sanitation.

3. Sukuk issuances in the Asian region: Financial institutions have been the core sector raising sukuk to meet capital adequacy requirements. Sectoral diversification can be observed in quasi-government and corporate sukuk issuances originated in Indonesia and Malaysia. The Government of Malaysia's concerted efforts to include Islamic banking and Islamic finance as policy tools in its economic agenda has been the driving force behind the country's rise in the mainstream financial markets.
4. Sukuk investment in the Arab region: A review of the investors of the GCC's recent bond issuances (including sukuk) shows a high reliance on foreign investors.
5. Sukuk investment in the Asian region: In the analysis of the buy side of selected Asian countries, reference has been made to the McKinsey Asian Capital Markets Development Index to evaluate the level of intermediation, with a focus on countries that have raised sukuk in the past. Malaysia is ranked the highest among its peers with a score of 3.25 (out of 5) in terms of: (i) funding at scale; (ii) investment opportunities; and (iii) pricing efficiency. Indonesia recorded a score of 2.20 and Pakistan 1.30. The financial intermediation by NBFIs in the Asian region is dominated by Malaysia, followed by Hong Kong and Indonesia respectively.
6. Sukuk investment in the African region: Based on the composite mix of investors, Africa's debt securities are mainly held by foreign holders. Although African governments have implemented measures to heighten the development of NBFIs, challenges such as financial inclusion and a low savings rate have been hampering progress. The data on financial intermediation by NBFIs in the African region is only available for South Africa and Nigeria.

Finally, Dr. MUHAMMAD highlighted 5 key issues and challenges facing the sukuk market, namely:

1. Legislative framework: Recognition of trust and beneficial interest under the common law vis-à-vis civil law.
2. Tax law and framework: Lack of tax neutrality and tax incentives
3. Shariah governance framework: Lack of standardization/harmonization of Shariah rulings or resolutions and the need for centralized Shariah advisory board
4. Corporate sukuk issuance: The need for sovereign benchmark yield curve to encourage more supply of corporate sukuk issuances
5. Diversified investor base: Lack of intermediation from non-banking financial institutions (NBFIs), and the need of both local and foreign investors from various institutions

#### **Question(s) and Comment(s)**



**Question:** Is there a need for NBFIs when the Islamic banking sector is already strong?

**Answer:** Dr. MUHAMMAD clarified that NBFIs such as takaful and insurance companies, pension funds and asset management companies are significant in creating demand for long-term sukuk. They would complement the role of Islamic banks in creating a sustainable sukuk market.

**Question:** Could you discuss the usage of sukuk by governments to fund their budget deficits?

**Answer:** Dr. MUHAMMAD expressed that government budgets are used for both operating expenditure and development expenditure. Hence, raising sukuk to fund the development needs of a country would help to mobilize the economic activities. Most governments, which have issued sukuk, use the sukuk to finance various infrastructure projects such as toll roads, highways, etc.

**Question:** Who issues the IILM sukuk and who buys?

**Answer:** Dr. MUHAMMAD explained that the IILM itself issues the short-term sukuk which is subscribed by Islamic banks to facilitate more efficient liquidity management and to support cross-border transactions between these institutions.

## 4. Selected Case Studies and Policy Options

Ms. Ruslena RAMLI, Head of Islamic Finance, RAM Ratings, presented the findings of Chapters 4 and 5 of the research report. At the outset, she informed the participants about the case country selection criteria and methodology. The first level analysis included an evaluation of the level of sukuk market activity, country's contribution to global sukuk issuance and sukuk issuance by type of issuer. The results gave initial insights to categories the case country studies according to: 1) matured; 2) developing; and 3) infancy. Selection of countries also considered the study's regional scope which covered, Arab, Asian and African countries. In-depth analysis of the selected case country studies gave insights on the issues and challenges related to sukuk structure, issuance (supply or sell-side) and investment (demand or buy-side).

Ms. RAMLI proceeded to share findings of the report's first level analysis. Starting with Malaysia, the country accounted for 34.6% (or USD36.5 billion) of total global sukuk issuance. Malaysia's domestic sukuk market showcases active participation from both the public sector and private sector. Due to its leading position as the world's largest sukuk market, the study classified Malaysia as a matured market due to its healthy pipeline of sukuk issuance from both public and private sector, vibrant eco-system and the strong value proposition for sukuk which puts it at an advantage compared to conventional bonds. Similar justifications were given for the classification of UAE, Indonesia, Turkey and Hong Kong as developing and Nigeria as infancy.

Ms. RAMLI further explained that once a deeper understanding of the case country studies' sukuk market was obtained, the study found that the building blocks to sustain long-term (LT) growth of the sukuk market can be grouped into several benchmarks these include, 1) legal and regulatory framework; 2) market and infrastructure developments; 3) taxation; and 4) diversity of market players on both supply and demand sides. From these variables, the team was created a '**Development Stage Matrix**' (DSM). She argued that the DSM has several benefits: 1) it facilitated a comparative analysis of the variables that have had the most impact or affected the growth of a domestic sukuk market; 2) by using the matrix, any country can be classified into matured, developing or infancy based on the variables that exist or is absent from its domestic market; 3) upon in-depth analysis of whether the variables have helped or without it impedes the development of a domicile sukuk market the team was able to identify the potential issues and challenges faced by the domicile sukuk market. Ms. RAMLI also explained that under the classification of developing there is a sub-category – advanced, intermediate and beginner to further differentiate the stage of progress of each market.

Ms. RAMLI highlighted that from the DSM variables related to the issues and challenges were further scored based on its level of impact on the country's sukuk market. The team used the '**Spider Web Chart**' to depict the findings of the report - 1 denoting the lowest impact and 5 denoting the highest impact. From the charts, a clearer picture of a matured market vis-à-vis an infancy market was shown which also highlighted the areas of potential issues and challenges faced by a domestic sukuk market. Ultimately, as a country's domicile sukuk market matures over time the scoring should also advance to form a perfect score of 5. Upon understanding these key factors, the team was able to make the necessary policy recommendations to facilitate the sukuk market's next stage of growth.

Ms. RAMLI proceeded to share the report's policy recommendations specific to the case country studies. The policy recommendations touched on the legal and regulatory framework, market and infrastructure development, proposals related to tax neutrality and incentives and

considerations to support the diversification of market players on both demand and supply sides. She highlighted commercial reasoning will always have a significant influence in deciding to choose sukuk or conventional. Hence, the creation of a vibrant, thriving environment for sukuk is key to sustain LT growth. Another critical component that was discovered in the study was the “top-down” approach to promote the Islamic finance agenda.

Ms. RAMLI concluded the presentation by outlining the general policy recommendations to support the development of a sustainable sukuk market:

1. Development of a comprehensive framework that is aligned to the strategic ICM masterplan which promotes cohesive collaboration of key market stakeholders.
2. Development of initiatives to build and/or strengthen the ICM ecosystem – legal, regulatory and tax framework, and market infrastructure for ICM.
3. Development of a sustainable liquidity base to support demand for Shariah-compliant assets, hence facilitating diversification of market players on the demand side of the sukuk market.
4. Development of a sustainable supply of sukuk issuance from the private sector to foster diversification of industry participants on the supply side and expand the benchmark yield curve.
5. Development of a seamless Shariah governance process to facilitate faster turnaround time for sukuk issuance, improve the clarity of sukuk structures, promote product innovation, build market confidence and greater market awareness amongst industry practitioners.

### Question(s) and Comment(s)

**Question:** The representative of Nigeria made some comments the sukuk amount issued by Nigeria and asked What is the rationale behind scoring the country’s Shariah governance as per the spider web chart?

**Answer:** Ms. Ramli explained the scoring of ‘2’ for Shariah governance framework recognized Nigeria’s effort in establishing the Financial Regulatory Advisory Council of Experts (FRACE) in 2013 within the Central Bank of Nigeria (CBN) and issuance of the Guidelines on the Governance of FRACE for Non-interest (Islamic) financial institutions and Guidelines on the Governance of Advisory Committees of Experts (ACE) for Non-interest (Islamic) Financial Institutions in 2015. However, the scoring approach should also include the establishment of Shariah resolutions on Shariah-compliant structures that can be used in the market as well as the availability of clear processes for Shariah advisory, Shariah audit reviews, etc. This is to ensure Shariah governance and accountability of the Shariah committee at issuance and throughout the life of the sukuk including its operational aspect.

**Question:** Indonesia’s representative asked justification for the country’s Shariah governance scoring on the spider web chart.

**Answer:** The scoring of ‘3’ acknowledges the memorandum of understanding signed between Otoritas Jasa Keuangan (OJK) and the Nasional Shariah Board of Indonesian Ulama Council (DSN-MUI in Indonesian acronym) including OJK’s sukuk guidelines which states that all sukuk issuances require the prior endorsement of a Shariah advisor licensed by OJK. Nevertheless, a complete Shariah governance ecosystem requires publications of guidelines and policies to

provide guidance and assurance to market practitioners on the consistency and clarity of approved Shariah principles and any operational aspect. In addition, key functions of Shariah governance such as Shariah advisory, Shariah audit reviews, etc. need to be established.

**Question:** if the countries that are classified as developing or infancy can issue green sukuk and will this asset class gain more visibility in the future.

**Answer:** Ms. RAMLI clarified that any country can issue green sukuk. She further stated that since the launch of Malaysia's Sustainable and Responsible Investment (SRI) Sukuk Framework in August 2014, there have been two green sukuk issuances related to solar power. She also expressed that innovative fundraising instruments like green and SRI sukuk is a viable solution to address global needs for green and other forms of sustainable and responsible financing.

## 5. Policy Debate Session on the Role of Sukuk in Islamic Capital Markets

The policy debate session was moderated by Mr. Bashah BADLISHAH, Assistant General Manager at the Securities Commission of Malaysia. At the beginning of the session, Mr. Selçuk KOÇ, Director at the COMCEC Coordination Office, made a brief presentation on the responses of the Member Countries to the policy questions on the role of Sukuk in Islamic capital markets sent to the Financial Cooperation Working Group focal points by the CCO. Afterwards, he introduced the Room Document including draft policy recommendations.

After extensive discussions, the Working Group has 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.*
- **Policy Recommendation 2:** *Improving Market Infrastructure and, where needed, the Existing Tax Framework for Enhancing Sukuk Issuance.*
- **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.*
- **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.*
- **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.*

## 6. Utilizing the COMCEC Project Funding

Mr. Burak KARAGÖL, Director at the COMCEC Coordination Office, made a presentation on the COMCEC Project Funding introduced by the COMCEC Strategy. At the beginning of his presentation, Mr. KARAGÖL informed the participants about instruments of the COMCEC Strategy; working groups and project funding. Mr. KARAGÖL emphasized that the project funding is a policy support instrument and it has been implemented since 2013.

Mr. KARAGÖL continued his presentation by highlighting the essentials of the COMCEC Project Funding. Mr. KARAGÖL underlined that COMCEC Funded Projects can be in two different types as activity-based projects and research projects. He also touched upon the eligible activities under each type of project.

Mr. KARAGÖL highlighted that topics of the funded projects should be in line with the COMCEC Strategy, Policy Recommendations adopted by the COMCEC Ministerial Session and Sectoral Themes published on the COMCEC website. He informed the participants on the timeline for the project submission, rules and procedures of the COMCEC Project Funding as well as benefits of the Program for the member countries.

Mr. KARAGÖL shared brief information with participants regarding main characteristics of successful project proposals and stated that “sufficient and informative project summary”, “sound project activities and relevant details about them”, “qualified human resources in line with Project Submission Guidelines requirements”, “detailed and well-designed work plan”, “realistic cost estimations in the budget and sufficient explanations for them” are key success factors.

Mr. KARAGÖL also gave information on previously funded projects in the past four years. He stated that 45 projects were implemented in 2014, 2015, 2016 and 2017 4 of them were finance projects. He informed participants that under the last project call, two finance projects has been final listed, namely Improving Financial Consumer Protection in the OIC Countries- Turkey and Training and Guidelines on SUKUK issuance- Nigeria. He concluded his presentation by giving information on the timeline for project submission.

### Question(s) and Comment(s)

**Question:** Who can submit projects?

**Answer:** Mr. KARAGÖL underlined that relevant Ministries of the Member Countries and the OIC Institutions operating in the field of economic and commercial cooperation can propose projects. He added that Member Countries shall be a member of the corresponding COMCEC working group in order to be able to submit a project proposal. Project proposals can be submitted through the ministries that are determined as working group focal points in the Member Countries.

## 7. Member Country Presentations

### 7.1 Brunei

Ms. Noor Hidayah MUTALIP, Manager at Monetary Management, Autoriti Monetari Brunei Darussalam (AMBD), made a presentation on Sukuk Market in Brunei Darussalam.

Ms. MUTALIP briefed participants on general economic outlook of the Brunei Darussalam and the structure of Financial System Assets in 2017 as well as key milestones in the Brunei market.

She underlined that Sukuk, as opposed to bonds, were issued to ensure a wider investor base, as such that both Islamic and conventional financial institutions are able to participate. She added that, in line with Brunei Darussalam's national identity, and its blend of the Malay language, culture, and customs as well as the teaching of Islamic laws and values; and the monarchy, Brunei promotes the development of a capital market that complies with Syariah.

She shared background information on the Brunei Government Sukuk Al-Ijarah, the objectives of the programme and the challenges they faced in the Brunei Sukuk market in the area of infrastructure, regulatory and local expertise. Finally, she informed the participants on the plans moving forward to further enhance the Brunei Government Sukuk Programme.

### 7.2 Indonesia

Ms. DWI IRIANTI HADININGDYAH, Deputy Director, Ministry of Finance, made a presentation on the development of Sukuk Negara. At the outset, she informed the participants regarding milestones of Sukuk Negara and continued her presentation by giving statistics about Sukuk Negara Issuances. Ms. HADININGDYAH mentioned that, from 2008 to March 2018, total issuance is USD63.2 billion and total outstanding Sukuk is USD 44 billion.

She underlined that Indonesia is leading in International Sovereign Sukuk Issuer. She argued that Indonesia is a Pioneer country with the innovation in Global Sukuk Structuring through Wakala sukuk structure. She also shared information on the first sovereign global green Sukuk issuance which was made on February 22, 2018, by the Republic of Indonesia. She touched upon the domestic secondary market performance and Retail Sukuk for Promoting Financial Inclusion as well as Hajj Fund Sukuk.

She also shared some information about infrastructure projects that were financed through Sukuk Negara. She addressed the factors supporting Sukuk Negara development under 4 title namely, legal infrastructure, issuance method, structure and Sharia compliance and variety of instruments. At the last part of her presentation, she highlighted the prospects and challenges on Sukuk Negara.

### 7.3 Iran

Mr. Mohammad Mehdi MOMENZADEH, Expert at Securities and Exchange Organization (SEO) of Iran, made a presentation on Sukuk Market in Iran. At the beginning of his presentation, Mr. MOMENZADEH shared information on the historical development of the Iranian capital market.

He underlined that SEO has been the regulatory and supervisory authority of Iran capital market since 2005. He informed the participants regarding the capital market structure. In Iran Capital Market, there are four exchanges including two equity markets, i.e., the TSE and IFB, and two commodity markets, i.e., the IME and IRENEX. He continued his presentation by stressing the brief history of sukuk issuance in Iran and shared some statistics on Sukuk. He argued that all instruments in Iran capital market are Shariah compliant.

Mr. MOMENZADEH underlined that it's not been a long time for Sukuk issuance in Iran capital market, but its amount and tendency of corporations show that it can be a promising method of financing, He argued that Sukuk related regulation, facilitate Sukuk issuance in Iran. He also stressed that Capital Market of Iran has great potential for Sukuk issuance and quite all organs exist in the country.

## 7.4 Sudan

Mr. Osman ELATAMANI, Manager at Ministry of Finance of Sudan, made a presentation in issuing and managing Islamic financial instrument.

Mr. ELATAMANI started his presentation by sharing information on the historical evolution of the Sudan money market. He also shared information on the development of Sukuk in Sudan. He briefed the participants on the regulatory framework and infrastructure bodies for Sukuk in Sudan.

He mentioned that the legal structure for investment funds (Mutual Islamic Fund) was established in 1995. This fund has been using invest in government securities, stocks, industry funding, water, real estate. MR. ELETAMANI also shared some information about the types of funds, maturity, profit and etc. of the Mutual Islamic Fund.

At the last part of his presentation, he underlined the general issues that are limiting money market as below and argued some recommendations to challenge with these issues:

- Lack of regularity support (e.g. SEC).
- Secondary market illiquid due to the absence of market makers and under writers in sukuk.
- Limited availability of bench mark to the pricing of sukuk (e.g. yield curve).

## 7.5 Turkey

Mr. Eren YAVUZ, Treasury Expert in the Undersecretariat of Treasury, made a presentation on Turkey's Sukuk experience.

At the beginning of his presentation, he presented a scheme that shows the legal framework of corporate Sukuk in Turkey. In this sense, he said that the regulation and supervision of lease certificates (Sukuk) were under the responsibility of Capital Markets Board of Turkey (CMB). First Sukuk regulation was introduced in 2010 with a Communique by CMB. Afterward, new regulations regarding Sukuk were made for new structures and tax neutrality. He stressed that currently there were five types of Sukuk structure in Turkey: Wakala, Ijarah, Musharakah, Murabahah / Tawarruq and Istisna.



Mr. YAVUZ gave information on corporate Sukuk issuance in the domestic Sukuk market. He stated that the capital markets instruments and institutions which both are deemed to be Islamic in nature and might be classified as Islamic. Lease certificates (Sukuk), participation funds and participation pension funds are financial instruments that are Islamic in nature.

Sukuk are the most commonly used capital market instruments for raising funds compatible with interest-free financing principles. In the Sukuk market, as the end of 2017, total Sukuk issuances reached to USD 7.7 billion and wakalah was the commonly used method. He also stressed that cross border outstanding Sukuk was around USD 4.2 billion as of 2017.

For the sovereign Sukuk issuances, Mr. YAVUZ summarized the improvements in the legal framework and the features of lease certificates. He also shared the data about the sovereign Sukuk issuances. In this sense, Turkish Treasury issued 26 sovereign Sukuk both in the international and domestic markets as of March 2018. He stressed that lease certificates became an important tool for public finance in Turkey.

Having summarized sovereign Sukuk issuances, he introduced the Gold Indexed Ijara Sukuk, a new type of ijara Sukuk was issued by the Turkish Treasury in October 2017. In the Gold Indexed Ijara Sukuk structure, only individual investors can invest in it and demand is collected in different rounds across Turkey through the state owned banks and only 22K and 24K golds will be accepted. The maturity of Sukuk is two years and annual lease rate is 2.40%. Investors can sell or transfer securities to another individual before maturity and on maturity, investors may request the final payment as one kilogram of the gold bar (produced by refineries) or republic gold quarter coins printed by Turkish State Mint.

In October 2017, Turkish Treasury made first Gold Indexed Ijara Sukuk and the total amount of gold collected was around 1,3 tonnes (50 million USD). While the total number of investors was 6,700, 52% of investors were between 25-44 years old.

Afterward, he gave detail information about the last international sovereign Sukuk issuance, made on 30 March 2017. He expressed that the order book attracted a strong demand with a bid/cover ratio of 3 times. When it comes to regional breakdown, Middle East (46%) and United Kingdom (31%) were the top regions.

Mr. YAVUZ gave information about CBRT liquidity facilities for participation banks. He stressed that CBRT accepts sovereign Sukuk as collateral since 2012 and IILM Sukuk since 2014. CBRT also extended liquidity facilities for participation banks to use of open market operations.

## **8. International Institution(s) / Private Sector's Contributions**

### **8.1 Sukuk Trends and Salient Features of IIFM Sukuk Documentation Standardization Initiative**

Mr. Ijlal A Alvi, CEO of IIFM, made a presentation on IIFM Sukuk documentation and market guidelines standardization initiatives.

Since Sukuk trends were already covered in detail during morning session hence Mr. Alvi started his presentation by commenting on the following critical issues which need to be addressed tackled for the development of Sukuk market in OIC countries:

1. Insolvency law based on international commercial law is essential particularly for corporate Sukuk issuances in the domestic market
2. Tax neutrality is required as Sukuk structuring involve an economic asset or services unlike conventional bond which is balance sheet based only
3. Sukuk is a capital market instrument and more OIC countries need to issue Retail Sukuk like Indonesia, Bahrain, Malaysia
4. Over-reliance on one particular Sukuk structure needs to be avoided and transparency in Sukuk structures is important
5. Title transfer and legal framework is needed for asset back Sukuk issuance

Mr. Alvi mentioned that IIFM's documentation and product confirmation standards (so far IIFM has published 7 (seven) global Islamic hedging standards and 3 (three) liquidity management documentation and product confirmations and presently IIFM standards are in use, particularly in cross-border wholesale market, in a number of jurisdictions such as GGC, Jordan, Malaysia, Turkey as well as a number of Islamic institutions including large conventional financial institutions active in Islamic finance are using IIFM standards. He also mentioned that IIFM is currently working on Islamic trade finance related documentation and has recently initiated Ijarah and Mudarabah Sukuk documentation and Sukuk market guidelines project.

Mr. Alvi pointed out the key benefits of its standards to the industry as follows:

1. Shariah harmonizing and emphasis of AAOIFI shariah standards in putting together the practical and ready to implement IIFM standards
2. Creation of uniform market and operational practices
3. Legal clarity, issuance of legal opinions on IIFM standards for contract enforceability purposes
4. Clarity on Governing law
5. Tremendous cost saving to users as IIFM globally implementable standards are available free of cost as typically an institution need to spend several hundred thousand dollars for such documentation
6. Creation of transparency in Islamic contracts and product confirmations

Mr. Alvi mentioned that IIFM Sukuk Standards initiative is the outcome of comprehensive industry consultation process as follows:

1. Sukuk Al Ijarah Documentation Standard: The Standard is presently in working group consultation and input phase and after IIFM Shariah Board guidance and approval the full set of the documentation will be available to Sukuk issuers (the presentation included the typical documentation used in Ijarah Sukuk)
2. Sukuk Al Mudarabah Documentation Standard: The working group consultation and input phase will commence in May 2018 and once published after IIFM Board guidance and approval the standard will have a full set of documentation for unsecured and perpetual Mudarabah Sukuk (the presentation included the typical Mudarabah Sukuk documentation)
3. Sukuk Market Guidelines: The market guidelines will cover Sukuk primary and secondary market issues as follow:
  - Exceptions for sovereign Sukuk issuers
  - SPV ownership and independence
  - Naming of Sukuk SPV
  - Role of the trustee and its powers
  - Methodology in dealing with minority creditors
  - Sukuk default, restructuring and liquidation
  - Asset Based and Asset-Backed Sukuk
  - Enforceability of foreign judgments and enforceability
  - Information flow between the lead manager and paying agent
  - Secondary market guidelines
  - And other market guidelines as recommended by the working group in the industry

## **8.2 AAOIFI's New and Revised Accounting Standards on Sukuk and Their Expected Impacts on the Market**

Mr. Omar Mustafa ANSARI, Acting Secretary General of AAOIFI, made a presentation on AAOIFI's new and revised accounting standards on Sukuk and their expected impacts on the market. Mr. ANSARI highlighted that AAOIFI already had a Shari'ah standard and an accounting standard on the investor's side (FAS 25, earlier FAS 17). However, these were old and there was a need for revision of the standard.

He mentioned that AAOIFI launched a comprehensive project on Sukuk with an objective to improve the existing Shari'ah and financial accounting standards of AAOIFI and to fill in the gaps identified by the experts and industry, particularly for the avenues not covered by the existing standards. One of the most crucial observations was the absence of an existing standard providing guidance to the Sukuk issuers.

Mr. ANSARI underlined that the project started in the beginning of 2015 and now the Shari'ah standard is being drafted. Multiple WG meetings and workshops conducted by now. Two accounting standards are in finalization phase (Exposure drafts (EDs) issued already) while the third one is shortly to be issued as ED.

He stressed that FAS 29, aims to address this need in particular, while FAS 34 sets out financial reporting guidelines for the Sukuk- holders. Introduction of these standards along with the overall changes in the generally accepted accounting principles required amendments and improvements to the accounting and reporting by the investors in Sukuk.

Mr. ANSARI touched upon that the existing standard is a bit old, and there have been significant changes in the market practices since it was issued. Additionally, there are new structures and products being used for issuance, which need to be captured. In addition, numerous Shari'ah non-compliances were identified during the last several years, which need to be handled through the standard. The market input is needed for the standard.

He briefed the participants that discussions during the workshops initiated the need for the governance of Sukuk. Shari'ah standard discussions also required numerous governance requirements. Preliminary study for the same is completed and the areas which need consideration are identified. These include Shari'ah board and its responsibilities, Shari'ah / financial/contractual compliance audit, transparency and disclosure related to the offering documents, the relationship between parties, etc. It is expected that this governance standard will bring significant improvements in the process and in the transparency and fair treatments, as well as, Shari'ah compliance. Additionally, there is a need for Shari'ah compliance and fiduciary ratings for such instruments, in addition to the credit ratings.

MR ANSARI highlighted that FAS 29 standard (Sukuk in the books of the issuer) aims at setting out accounting and classification guidelines for Sukuk in the books of the issuer. For an accounting of issuance of Sukuk, the standard refers to already issued FAS based on the underlying product and provides presentation and classification guidelines on the liability side based on structure and characteristics of Sukuk. The standard for the first time introduces the definitions of business, control and quasi equity and on the basis of determination the extent of control of the issuer, the Sukuk are accounted as an on-balance sheet and off-balance sheet Sukuk.

Mr. ANSARI expressed that on-balance sheet Sukuk are is? classified in accordance with the structure, entailing contract/product governing the relationship of the Sukuk-holders, the SPV? and the institution, as well as, the nature of underlying assets/business, as either equity, quasi-equity or liability. The standard further provides guidance on the characteristics of on balance sheet equity, quasi-equity and liability. He mentioned that the standard goes on to explain the accounting implications, where the ownership of the asset is transferred to Sukuk holders. The carrying value adjustment due to change in ownership of underlying asset and recognition of resulting gain/loss is provided (as well as any amortization on gain).

Mr. ANSARI highlighted that when issuance of Sukuk does not result in control of the issuer, such Sukuk is classified as off-balance sheet Sukuk. Where the Sukuk are classified as an off-balance sheet the involvement of issuer is primarily that of the manager or agent or user i.e. in a fiduciary capacity only, and whereby the control entailing risks and rewards incidental to ownership with

regard to the underlying assets is with the Sukuk-holders. The gain/loss on de-recognition of the asset is recognized in the period the sale is consummated.

Mr. Ansari informed the participants that The FAS 34 (Financial reporting for Sukuk holders) standard introduces the financial reporting for the benefit of the Sukuk-holders and other stakeholders – considering them a real or virtual entity collectively. After extensive market interactions and expert discussions it was concluded that for purpose of improved transparency and Shari’ah compliance, a standard on financial reporting for Sukuk holders be issued.

He underlined that FAS 34 is issued for Sukuk through SPVs or similar mechanism. The Sukuk which are kept on-balance sheet in accordance with FAS 29 may opt not to apply this standard. The standard assigns the responsibility to of financial reporting on the originator at least annual basis to be shared with the stakeholders of the originator. The standard bifurcates Sukuk into two classifications i.e. Business Sukuk and Asset Sukuk and further provides guidance on financial reporting in accordance with said classification.

Mr. ANSARI touched upon that accounting treatment of all assets and liabilities and related revenue and expenditure in case of business Sukuk shall be in accordance with respective FAS. However, for financial reporting purposes, the Standard further divides business Sukuk into Islamic finance transaction and assets, good and services other than Islamic finance transactions. For business Sukuk there should be a condensed set of financial statements, while for the asset Sukuk the Net Asset Value statement and NAV calculations are required.

Mr. ANSARI expressed that The Revised FAS 25 (new FAS 33 -Investments in Sukuk, shares and similar instruments) standard is being revised to accommodate changes brought by FAS 29 and FAS 34, along with other changes in line with the current accounting practices for such investments. Additionally, the revision intends to bring accounting closer to the generally accepted accounting principles, particularly, IFRS 9. The objective of this standard is to set out principles for recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other investments that exhibit characteristics of expected effective yield instruments and equity instruments made by IFIs.

### **8.3 Halkinvest’s Experience in Sukuk Issuance**

Mrs. Dilan PAMİR, Corporate Finance and Advisory Director of Halk Invest, made a presentation on Halk Invest’s Experience in the Turkish Sukuk Market.

Mrs. PAMİR presented Halk Invest as the investment banking and brokerage arm of Türkiye Halk Bankası A.Ş. (Halkbank), one of the largest banks in Turkey. She highlighted that Halk Invest deals with initial and secondary public offerings, bonds and bills issuances, sukuk issuances, mergers and acquisitions in general. With its strong network of Halk Invest branches and Halkbank branches, Halk Invest has the highest sale capacity in the Turkish capital markets and strong presence in the SME market.

She argued that thanks to this strong network, Halk Invest had leading roles and proven track record in the largest capital markets deals in Turkey since 2000. Out of the five large capital markets deals, Halk Invest was the domestic consortium co-leader in two deals, Halkbank IPO with a size of US1.8 bn in 2007 and Halkbank SPO with a size of US2.5 bn in 2012, respectively. The third deal was Emlak Konut REIT’s US1.6 bn SPO in 2013, in which Halk Invest succeeded the “Highest Domestic Institutional Demand” and “Total Domestic Demand” by a single

brokerage company in Turkish capital markets history. Another record of accomplishment for Halk Invest was the “Highest Domestic Retail Demand (book-running)” by a single brokerage company in Turkish capital markets history that was achieved in the Halk REIT’s IPO of US142 mn in 2013.

Mrs. PAMİR highlighted that conventional bond issuances for the private sector companies in Turkey started in 2010, while sukuk issuances gained importance following the enactment of the communique by the Capital Markets Board in Turkey in 2013. Mrs. PAMİR stated that they started to study sukuk products back in 2012 for the student houses projects; however, the market participants were not ready for sukuk issuances then. Following the enactment of the communique, Halk Invest placed emphasis on the sukuk products, and fortunately, had the chance to contribute to the Turkish sukuk market, both in regulations wise and the expansion of the investor base, through their sukuk projects.

Mrs. PAMİR presented Halk Invest’s experience in sukuk through Toprak Mahsulleri Ofisi (“TMO”, Turkish Grain Board) sukuk and Kuveyt Turk Participation Bank sukuk issuances. She informed the participants that between 2014 and 2016, Halk Invest was the brokerage company for the Kuveyt Turk Participation Bank’s sukuk issuances that summed up to 1.9 mn TL, 2 of which were public offerings. She added that Halk Invest, with its strong branch network and corporate sales capacity, achieved to bring brand new investors to the market (both individual and corporate clients) and gained more than 60% market share in sukuk issuances back then.

Mrs. PAMİR continued with the TMO Sukuk issue and stated that; Halk Invest, first started to work with TMO in 2014; yet the issue took place in 2017 since **they had to deal with some tax issues regarding the sukuk agreements which were not regulated until then**. Enactment of the necessary regulations (that paved the way for all other issuances after that date) as a result of the communications and official correspondences between the Ministry of Finance, Shari’ah Advisors and other regulatory bodies took three years. The 100 mn TL issue was realized in 2017. The ALC for the first sukuk for TMO was KT Sukuk ALC since Halkbank Finance Group did not own an ALC at the time. However, Halk Invest dealt with the establishment of an ALC for the Halkbank Finance Group and the continuing sukuk issuances will be realized through Halk Varlik Kiralama AS (“Halk ALC”).

She underlined that TMO Sukuk was important with its many features as in;

- First public enterprise (other than Turkish Treasury) to issue Sukuk,
- First utilization of agricultural commodity as a subject of Sukuk, and,
- There were some major tax regulations to be enacted that affected all the subsequent Sukuk issuances in Turkey

TMO Sukuk was awarded the “*Deal of the Year, Turkey, 2017*” by IFN (Islamic Finance Network) and “*The Most Creative Capital Markets Instrument*” by Turkish Capital Markets Association. (TSPB, Turkiye Sermaye Piyasaları Birliği)

She briefed the participants that Halk Invest also issued the “First REIT Sukuk” in Turkey for its sister company, Halk REIT. The issuances took place at the end of 2017 and the beginning of 2018. Halk REIT sukuk issue was the first sukuk transaction for Halk VKS (Halk ALC).

Mrs. PAMİR argued the difficulties faced in the sukuk market in Turkey as;

- Short term preferences of the investors: *Due to Sukuk funds' duration limitations, institutional investors prefer short terms. This prevents issuing longer term Sukuk, creating a mismatch between the investors & fund seekers.*
- Limited investor base: *Participation Funds' (both investment and pension) sizes are limited as of date. They are only 4% of total fund market that is why Sukuk cannot compete with conventional instruments.*
- Competitive rate of return in substitute instruments: *Sukuk market, still being infant, has yet to grow and will attract more investors. However, as of date, issuers face competition from conventional instruments regarding the rate of return. Nevertheless, asset-based/backed structure of Sukuk, is expected to gain more share in the market.*
- Predetermined issue size prevents satisfying the last minute demand: *Because of CMB regulations, Sukuk issuer has to set the issue size beforehand and the predetermined amount cannot be increased in case of a higher demand from the investors. This prevents to satisfy the excess demand in the market.*
- Foreign exchange issuances are not permitted: *Foreign exchange denominated instruments issuances are not permitted in Turkey, which in turn may limit the foreign investor interest in Sukuk issuances in Turkey.*

Mrs. PAMİR also added that they believe in the Turkish market potential and started to work in the sukuk products way before. Halk Invest will continue to work to expand the sukuk market via new issuances with brand new structures for the Turkish sukuk market; for they see that there is a growing sukuk demand (on both the investors' side and the issuers' /agents' side) in the Turkish market.

## 9. Closing Remarks

The Meeting ended with closing remarks of Mr. Ali Raza SYED, Joint Director at State Bank of Pakistan and the Chairperson of the Meeting and Mr. Selçuk KOÇ, Director in the COMCEC Coordination Office.

In his closing remarks, Mr. KOÇ informed the participants that the 11<sup>th</sup> Meeting of the COMCEC Financial Cooperation Working Group will be held on October 25<sup>th</sup>, 2018 in Ankara with the theme of "Islamic Fund Management". He stated that a research report will also be prepared for the eleventh meeting and shared with the focal points and other participants at least one month before the meetings.



## **Annex 1: List of Participants**

**LIST OF PARTICIPANTS**  
**10<sup>th</sup> MEETING OF THE FINANCIAL COOPERATION WORKING GROUP**  
**29 March 2018, Ankara**

### **A. MEMBER COUNTRIES OF THE OIC**

#### **ISLAMIC REPUBLIC OF AFGHANISTAN**

- Mr. AHMAD SAEED ASLAM  
Specialist, Ministry of Finance

#### **REPUBLIC OF AZERBAIJAN**

- Mr. ZAKA MIRZAYEV  
Deputy Head of the Department, Ministry of Finance

#### **BRUNEI DARUSSALAM**

- Ms. NOOR HIDAYAH MUTALIP  
Manager, Authority Monetary Brunei Darussalam
- Ms. MAZ KHAIRUNNISA MOHIDIN  
Manager, Authority Monetary Brunei Darussalam

#### **REPUBLIC OF CAMEROON**

- Mr. EKURI TAMBE ARONGAGBOR DONATUS  
Sub Director, Ministry of Finance

#### **REPUBLIC OF COTE D'IVOIRE**

- Mr. ANGE BEHI  
Assistant Director, Ministry of Finance
- Mr. SIAKA FANNY  
Adviser, Ministry of Finance

#### **ARAB REPUBLIC OF EGYPT**

- Mr. HOSSAM HUSSEIN ISMAIL  
Director, Ministry of Foreign Affairs
- Mr. AMR SELIM  
Deputy Head of Mission, Embassy of Egypt in Ankara

#### **REPUBLIC OF GAMBIA**

- Ms. ANNETTA RILEY  
Principal Banking Officer, Central Bank of the Gambia
- Ms. FATOUMATTA BARRY  
Fiscal Officer, Ministry of Finance

#### **REPUBLIC OF INDONESIA**

- Ms. DWI IRIANTI HADININGDYAH  
Deputy Director, Ministry of Finance
- Mr. EKA HENDRA PERMANA  
Head of Division, Ministry of Finance

**ISLAMIC REPUBLIC OF IRAN**

- Mr. AGHAJANI ALIREZA  
Expert, Ministry of Economic Affairs and Finance
- Mr. MOHAMMAD MEHDI MOMENZADEH  
Expert, Securities and Exchange Organization of Iran (SEO)

**REPUBLIC OF IRAQ**

- Mr. SHUKUR THAMER  
Senior Manager, Iraq Fund for External Development
- Ms. ABEER ALHUMAIRI  
Manager, Ministry of Finance

**MALAYSIA**

- Mr. BASHAH BADLISHAH  
Assistant General Manager, Securities Commission
- Ms. MAZRINA MISRI  
Assistant Secretary, Ministry of Finance
- Ms. FAUJAT NOORI BINTI HITHAYATHULLAH KHAN  
Fiscal and Economics Division, Ministry of Finance

**REPUBLIC OF MALI**

- Ms. AISSATOU TANGARA  
Officer, Ministry of Finance
- Mr. IBRAHIM COULIBALY  
Authorized Signatory, Ministry of Finance

**FEDERAL REPUBLIC OF NIGERIA**

- Mr. PATIENCE ONIHA  
Director General, Debt Management Office
- Mr. MONDAY ISIOMA USIADE  
Deputy Director, Debt Management Office

**SULTANATE OF OMAN**

- Mr. SAUD AL BUSAIDI  
Manager, Central Bank of Oman
- Mr. MANSOOR AL GHEILANI  
Specialist, Central Bank of Oman

**ISLAMIC REPUBLIC OF PAKISTAN**

- Mr. ALI RAZA SYED  
Joint Director, Islamic Banking Department, State Bank of Pakistan

**STATE OF QATAR**

- Ms. SAMERA AL MOHANNADI  
Third Financial Researcher, Ministry of Finance
- Mr. HASSAN ALMOHANNADI  
Economic Specialist, Ministry of Economic and Trade

**REPUBLIC OF SENEGAL**

- Mr. ABDOULAYE DIOP  
Director, Ministry of Commerce



- Mr. MAME ALASSANE SENE  
Program Officer, Ministry of Economy and Finance
- Mr. NGOM IBRAHIMA  
Commissioner of Economic Investigations, Ministry of Trade

#### **REPUBLIC OF SUDAN**

- Mr. OSMAN ELATAMANI  
Manager, Ministry of Finance
- Mr. MIRGANI GLOOD  
Director, Ministry of Finance

#### **REPUBLIC OF TUNISIA**

- Ms. SARRA CHIBOUB  
Head of Unit, Ministry of Finance

#### **REPUBLIC OF TURKEY**

- Mr. HAKAN ERTÜRK  
Deputy Director General, Undersecretariat for the Treasury
- Mr. MÜCAHİT DUMAN  
Head of Department, Undersecretariat for the Treasury
- Mr. EREN YAVUZ  
Expert, Undersecretariat for the Treasury
- Mr. UTKU ŞEN  
Expert, Undersecretariat for the Treasury
- Mr. VEYSEL ERGENÇ  
Expert, Undersecretariat for the Treasury
- Mr. UĞUR YÜCE  
Expert, BDDK
- Ms. İLİÇ BAŞAK ŞAHİN  
Expert, SPK
- Ms. GÜLSÜM ÇINAR DOLGUN  
Expert, TCMB
- Mr. MUHAMMED HABİB DOLGUN  
Expert, TCMB
- Mr. SELİM PİDECİ  
Assistant Expert, Undersecretariat for the Treasury
- MEHMET ESAD MERT  
Senior Associate, Undersecretariat for the Treasury
- Ms. AYSUN ÜNAL  
Officer, TCMB

#### **B. THE OIC SUBSIDIARY ORGANS**

##### **STATISTICAL, ECONOMIC, SOCIAL RESEARCH AND TRAINING CENTER FOR ISLAMIC COUNTRIES (SESRIC)**

- Mr. KENAN BAGCI  
Director

**C. INVITED INSTITUTIONS**

**ACCOUNTING AND AUDITING ORGANIZATION FOR ISLAMIC FINANCIAL INSTITUTIONS  
(AAOIFI)**

- Mr. OMAR MUSTAFA ANSARI  
Acting Secretary General

**HALKINVEST**

- Ms. DİLAN PAMİR  
Corporate Finance and Advisory Director
- Ms. MENEVŞE ÖZDEMİR  
Vice President

**INTERNATIONAL ISLAMIC FINANCIAL MARKET (IIFM)**

- Mr. IJLAL AHMED ALVI  
CEO

**INTERNATIONAL SHARI'AH RESEARCH ACADEMY FOR ISLAMIC FINANCE (ISRA)**

- Dr. MARJAN MUHAMMAD  
Head of Research Quality Assurance Office

**RAM RATINGS**

- Ms. RUSLENA RAMLI  
Head of Islamic Finance

**SECRETARIAT OF OIC MEMBER STATES' STOCK EXCHANGES FORUM**

- Mr. MAHMUT VARLI  
Assistant Specialist, BORSA İSTANBUL

**SECRETARIAT OF COMCEC CAPITAL MARKETS' REGULATORS FORUM**

- Ms. SEÇİL SAYIN  
Chief Expert, SPK

**D. COMCEC COORDINATION OFFICE**

- Mr. SELÇUK KOÇ  
Director
- Mr. BURAK KARAGÖL  
Director
- Mr. MEHMET ASLAN  
Director
- Mr. CAFER BİCER  
Financial Sector Specialist
- Mr. OKAN POLAT  
Expert
- FATİH ARSLAN  
Expert



## Annex 2: Agenda of the Meeting



**AGENDA**  
**10th MEETING OF THE COMCEC**  
**FINANCIAL COOPERATION WORKING GROUP**  
**(March 29th, 2018, Ankara)**  
**“Role of Sukuk in Islamic Capital Markets”**

### Opening Remarks

1. Financial Outlook of the OIC Member Countries
2. Overview of Islamic Capital Markets and Sukuk
3. Selected Case Studies and Policy Options
4. Policy Debate Session on the Role of Sukuk in Islamic Capital Markets
5. Utilizing the COMCEC Project Funding
6. Member Country Presentations
7. International Institutions' / Private Sector's Contributions

### Closing Remarks

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## Annex 3: Program of the Meeting



**DRAFT PROGRAMME  
10<sup>TH</sup> MEETING OF THE  
COMCEC FINANCIAL COOPERATION WORKING GROUP  
(March 29th, 2018, Crowne Plaza Hotel, Ankara, Turkey)**

*“The Role of Sukuk in Islamic Capital Markets”*

- 08.30-09.00 **Registration**
- 09.00-09.05 **Recitation from Holy Qur’an**
- 09.05-09.15 **Opening Remarks**
- COMCEC Financial Outlook**
- 09.15-09.35 Presentation: *Mr. Cafer BİÇER, Financial Sector Specialist,  
COMCEC Coordination Office*
- 09.35-09.45 Discussion
- Overview of Islamic Capital Markets and Sukuk**
- 09.45-10.25 Presentation: *Dr. Marjan MUHAMMAD, Head of Research Quality Assurance Office,  
International Shari’ah Research Academy for Islamic Finance (ISRA)*
- 10.25-10.55 Discussion
- 10.55-11.10 **Coffee Break**
- Selected Case Studies and Policy Options**
- 11.10-11.50 Presentation: *Ms. Ruslena RAMLI, Head of Islamic Finance, RAM Ratings*
- 11.50-12.30 Discussion
- 12.30-14.00 **Lunch**

### **Policy Debate Session on the Role of Sukuk in Islamic Capital Markets**

There will be a moderation session under this agenda item. Participants are expected to deliberate on the policy options/advices for improving Sukuk market in the OIC Member Countries. At the beginning of the session, the CCO will make a short presentation on the responses of the Member Countries to the policy questions as well as the Room Document.

- 14.00-14.10 Presentation: “Responses of the Member Countries to the Policy Questions on Sukuk Market in the OIC Member Countries”

*Mr. Selçuk KOÇ, Director  
COMCEC Coordination Office*

- 14.10- 15.30 Discussion

### **Utilizing the COMCEC Project Funding**

- 15.30-15.45 Presentation: *Mr. Burak KARAGÖL, Director  
COMCEC Coordination Office*

- 15.45-16.00 Discussion

- 16.00-16.15 **Coffee Break**

### **Member Country Presentations**

- 16.15-17.15 - Presentations  
- Discussion

### **International Institutions’ / Private Sector’s Contributions**

- 17.15-17.30 Presentation: “Sukuk Trends and Salient Features of IIFM Sukuk Documentation Standardization Initiative”

*Mr. Ijlal Ahmed ALVI, CEO,  
International Islamic Financial Market (IIFM)*

- 17.30-17.45 Presentation: “AAOIFI’s New and Revised Accounting Standards on Sukuk and Their Expected Impacts on the Market”

*Mr. Omar MUSTAFA ANSARI, Acting Secretary General,  
Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)*

- 17.45-18.00 Presentation: “Halkinvest’s Experience in Sukuk Issuance”

*Ms. Dilan PAMİR, Corporate Finance & Advisory Director,  
Halkinvest*

- 18.00-18.15 Discussion

- 18.15-18.20 **Closing Remarks and Family Photo**

## Annex 4: Policy Recommendations

### 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.