

POLICY RECOMMENDATIONS OF THE 11TH MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP

The COMCEC Financial Working Group (FCWG) has successfully held its 11th Meeting on October 25th, 2018 in Ankara, Turkey with the theme of “*Islamic Fund Management*”. During the Meeting, FCWG made deliberations on improving Islamic fund management in the OIC Member Countries. Room Document, prepared in accordance with the main findings of the analytical study conducted for the 11th Meeting of FCWG and the answers of the Member Countries to the policy questions, was the main input for the discussions. Accordingly, the participants have come up with some policy recommendations.

Rationale:

Policy Advice 1: Development of Key Measures (developing masterplans, promotional activities, etc.) to Support a Viable Ecosystem for Islamic Funds

Rationale: Governments’ presence in promoting successful inclusion of Islamic funds within the financial landscape will boost and aid effective implementation of strategies. In addition, the development of a masterplan at the national level and creation of market demand are vital to support development of an Islamic fund industry. Greater market awareness will also provide the coverage required to support financial inclusion and financial planning. This can be achieved through collaboration between regulators and market players via promotional activities, conferences, and seminars for public education.

Policy Advice 2: Development of a Robust Regulatory, Supervisory and Shariah Frameworks to Ensure Compliance, Growth and Protection of all Stakeholders’ Interest particularly Investors’.

Rationale: The establishment of a robust regulatory framework and ongoing market supervision engender trust in the markets, allowing greater transparency in product development, approval processes and governance while ensuring the protection of all stakeholders’ interests. The governing rules and regulations that are issued by a regulatory body set the tone on the conduct of asset management companies and facilitate the orderly development of the Islamic fund management industry. Equally important is considering the development of a Shariah framework to govern the operations of the Islamic fund management industry. The issuance of guidelines on Shariah screening and purification process provides greater clarity to investors and other market participants regarding business conduct.

Policy Advice 3: Encouraging Establishment of Institutional Funds to Increase Demand for Islamic Funds.

Rationale: The development of a captive market for Shariah-compliant assets is key to building an investor base for Islamic funds. Wealth preservation and capital appreciation start with market awareness on the importance of investing and saving. Some Governments of developing countries have instituted government-linked bodies to manage retirement funds. Furthermore, the level of financial inclusion differs from one country to another. As such, the institutionalisation of public savings goes a long way towards facilitating the development of a local fund management industry. Based on the study, institutional investors that provide seed investment to Islamic funds have helped spur market performance and build the necessary track record for Islamic fund management. Ultimately, institutional funds play a pivotal role to support wealth creation and mobilization of savings to support economic growth, taking into account national plans and priorities.

Policy Advice 4: Encouraging the Development of a Facilitative Tax Framework to Secure Strong Commitments from Supply and Demand Sides to Promote Competitive Positioning for Islamic Funds.

Rationale: A facilitative tax framework is key in attracting commitments from market practitioners, institutional investors, including retail investors to sustain the long-term growth of Islamic fund management industry. The establishment of tax neutrality facilitates the costing of Islamic finance products, so as to be competitive with conventional offerings. Consideration of additional tax incentives to encourage investors to choose Shariah investments would provide another venue for the growth of the Islamic finance market. Some countries also provide tax rebates to individuals vis-à-vis investment in retirement schemes and children's education, all of which help strengthen demand for fund management.

Instruments to Realize the Policy Advices:

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.