



**FINANCIAL COOPERATION**

**OIC/COMCEC /34-../D(..)**



**COMCEC**

**CCO BRIEF**  
**ON**  
**FINANCIAL**  
**COOPERATION**

**COMCEC COORDINATION OFFICE**  
**November 2018**

## CCO BRIEF ON FINANCIAL COOPERATION

Financial Cooperation among the Member Countries is of particular importance for facilitating capital mobility, increasing financial literacy, managing financial risks, supervising financial institutions, increasing product diversity and broadening and deepening financial markets.

### SELECTED FINANCIAL FIGURES

- **Islamic Finance**

The asset size of the Islamic finance sector has grown 8.3% in 2017<sup>1</sup>. The industry's total assets size is estimated at \$2.05 trillion in 2017 (Table 1), which was \$1.89 trillion in 2017 and \$1.88 trillion in 2016. The Islamic Finance industry consists of three main segments as banking, capital markets and takaful. Islamic banking sector is the dominant component of the Islamic finance industry. The global Islamic banking assets are representing 75,97% of the industry's total assets while Sukuk market, Islamic funds and Takaful market represent 19.51%, 3.25% and 1.27% of the Islamic finance industry respectively in 2017.

**Table 1: Breakdown of IFSI by Sector and by Region, US\$ Billion**

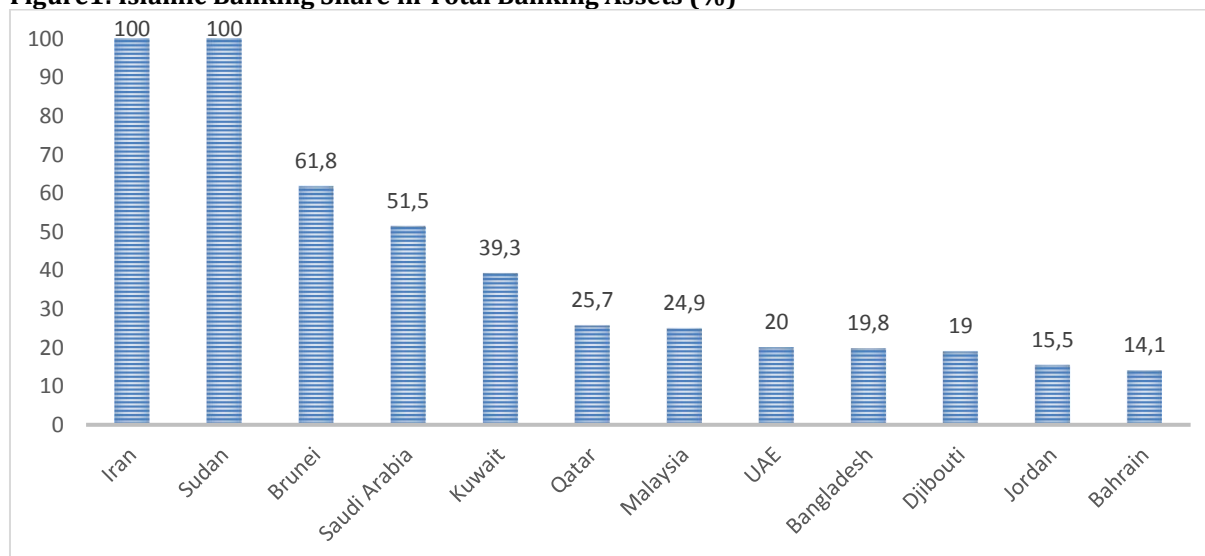
	Islamic Banking	Outstanding Sukuk	Islamic Funds' Assets	Takaful Contributions	Total
<b>Asia</b>	232.0	239.5	24.8	3.3	<b>499.6</b>
<b>GCC</b>	683.0	139.2	26.8	12.6	<b>861.6</b>
<b>Mena (ex-GCC)</b>	569.0	17.8	0.1	9.5	<b>596.4</b>
<b>Africa (ex-North Africa)</b>	27.1	2.0	1.6	0.7	<b>31.4</b>
<b>Others</b>	46.4	1.5	13.3	0.0	<b>61.3</b>
<b>Total</b>	<b>1,557.5</b>	<b>399.9</b>	<b>66.7</b>	<b>26.1</b>	<b>2,050.2</b>

Source: IFSB Stability Report 2018

Note: For Source and the date of the date please check the IFSB Stability Report 2018

The Islamic banking sector has reached systemic importance<sup>2</sup> in the Financial Sector in 12 member countries, which accounted for 92% of the global Islamic banking assets.

**Figure1: Islamic Banking Share in Total Banking Assets (%)**



Source: IFSB Islamic Financial Stability Report 2018

<sup>1</sup> IFSB Islamic Financial Stability Report 2018

<sup>2</sup> Share of Islamic Banking Sector in Total Banking sector >15%

The total Global Sukuk issuances amounted to \$92 billion in 2017, which was driven by large sovereign issuances from the GCC region, of 23% compared with 2016<sup>3</sup>. The top three markets for the Sukuk issuances in terms of volume were Malaysia (37.9%), Saudi Arabia (33.1) and Indonesia (6.1%) in 2017.<sup>4</sup>

The Global takaful contributions reached \$26 billion<sup>5</sup> in 2016 and were mainly driven by the top four countries which are holding 85% of the total takaful contributions: Saudi Arabia (38%), Iran (34%), Malaysia (7%) and UAE (6%).

Despite the decrease in the number of Islamic Funds in 2017 (1,161), assets under management (AuM) increased 19% and reached \$67 billion<sup>6</sup>. The top five jurisdictions accounted for 88% of the industry's AuM as at the end of 2017, i.e. Saudi Arabia (37.10%), Malaysia (31.66%), Ireland (8.62%), the US (5.25%) and Luxembourg (4.76%). This indicates that the operations of Islamic funds are still limited as key Islamic finance jurisdictions have deep-rooted Islamic banking sectors (e.g. the UAE, Pakistan, Indonesia, Kuwait and Qatar). The remaining 12% of AUM, with a \$8.4 billion value, is distributed across 29 other jurisdictions (including offshore domiciles) (IFSB, 2018).

## **COOPERATION EFFORTS UNDER THE COMCEC: THE COMCEC STRATEGY AND FINANCIAL COOPERATION**

The efforts for enhancing financial cooperation under the COMCEC are carried out under the COMCEC Financial Cooperation Working Group and the COMCEC Project Funding Mechanism, as well as the OIC Member States' Stock Exchanges Forum, the COMCEC Capital Markets' Regulators Forum and cooperation among the Central Banks and Monetary Authorities.

### **- The Role of Sukuk in Islamic Capital Markets (Tenth Meeting of COMCEC FCWG)**

Among other segments of Islamic finance, sukuk market has emerged as the most public and high-profile face of the sector. The sukuk market is seen as a key driver behind the growth of the Islamic finance industry and the state of the sukuk market is considered as a barometer for the well-functioning of the wider Islamic finance market. International sukuk market has grown rapidly since the first international US\$ 150 million issuances by a Malaysian Company (Kumpulan Guthrie Bhd) in 2001. Since then the sector has recorded significant growth rates and the global sukuk outstanding reached USD367 billion in 2016(*IIFM Sukuk Report 6<sup>th</sup> Edition*).

Since Islamic securitization requires a higher connectivity to the underlying asset and operating business, the Sukuk market is an important platform to support the Shariah-compliant long-term financing. Furthermore, the Sukuk provides a platform to manage liquidity, asset and infrastructure financing in the real economy. Therefore, it may also contribute significantly to the economic development of a country.

Given the importance of this issue, the Tenth Meeting of the COMCEC Financial Cooperation Working Group was held on March 29, 2018, in Ankara with the theme of "*The Role of Sukuk in Islamic Capital Markets.*" The research report submitted to the Working Group highlighted that essential building blocks for sustainable growth of a sukuk market are (i) a robust legal and regulatory framework including Shariah governance, (ii) a tax framework that promotes a level playing field between bonds and sukuk (i.e. tax neutrality and tax incentives), (iii) market infrastructure and technology (e.g. Islamic money market, electronic trading platform), (iv) regulation and supervision, and (v) cornerstone institutional investors that create the demand for sukuk issuances.

Some of the main challenges faced by member countries highlighted by the report are given below:

- Lack of necessary legislative framework
- Lack of tax framework to support development in the Sukuk market

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<sup>3</sup> IFSB Islamic Financial Stability Report 2018

<sup>4</sup> Ibid.

<sup>5</sup> Ibid

<sup>6</sup> Ibid.

- Lack of the Shari'ah governance framework
- Inadequate investor base

The policy advices highlighted by the Working Group can be summarized as follows:

- *Developing an Enabling Legal and Regulatory Framework for the Islamic Capital Markets and Promoting Solid Collaboration among the Key Market Stakeholders to improve the ecosystem for Sukuk issuance.*
- *Improving Market Infrastructure and, where needed, the Existing Tax Framework for Enhancing Sukuk Issuance.*
- *Developing a Sustainable Liquidity Base to Support Demand for the Shariah-Compliant Assets, and Facilitating Diversification of Market Players on the Demand Side of the Sukuk Market.*
- *Promoting a Sustainable Supply of Sukuk Issuance from the Private Sector in order to Foster Diversification of the Industry Participants on the Supply Side and Expand the Benchmark Yield Curve.*
- *Developing a Seamless Shariah Governance Process for Facilitating Faster Turnaround Time for the Sukuk Issuance, Improving Clarity of the Sukuk Structures, Promoting Product Innovation, Building Market Confidence and Increasing Market Awareness among the Industry Practitioners.*

All the reports submitted to the Meetings and the presentations made during the Meetings are available on the COMCEC web page ([www.comcec.org](http://www.comcec.org)).

#### **- Islamic Fund Management (Eleventh Meeting of the COMCEC FCWG)**

Islamic Fund management provides opportunities for Muslims as well as non-muslims to invest in Shariah compliant portfolios and securities. Nevertheless, Islamic fund management is at infancy level in the most of the OIC member countries and the operations of Islamic funds are still limited. The share of Islamic Funds in the sector is just 3.3% as of 2017.

Given the importance of this issue, the Eleventh Meeting of the Financial Cooperation Working Group was held on October 25th, 2018 in Ankara with the theme of "Islamic Fund Management". The research report submitted to the Working Group highlighted that Islamic Fund management industry; provides access to capital markets to the retail investors via standardized asset management, contributes to financial market efficiency, and supplies an efficient avenue for capital recycling. Among the 57 member countries, 14 OIC Member Countries have initiated Islamic funds. The research report analyzed 3 member countries namely, Malaysia, Morocco and Pakistan as well as South Africa as field visit case studies.

Some of the main challenges faced by member countries highlighted by the report are given below:

- Lack of regulations
- Inadequate human capital,
- Lack of investment opportunities and Shariah-compliant investible assets
- High transaction costs.

The policy advices highlighted by the Working Group can be summarized as follows:

- *Development of Key Measures (developing masterplans, promotional activities, etc.) to Support a Viable Ecosystem for Islamic Funds*
- *Development of a Robust Regulatory, Supervisory and Shariah Frameworks to Ensure Compliance, Growth and Protection of all Stakeholders' Interest particularly Investors'*
- *Encouraging Establishment of Institutional Funds to Increase Demand for Islamic Funds*
- *Encouraging the Development of a Facilitative Tax Framework to Secure Strong Commitments from Supply and Demand Sides to Promote Competitive Positioning for Islamic Funds.*

All the reports submitted to the Meetings and the presentations made during the Meetings are available on the COMCEC web page ([www.comcec.org](http://www.comcec.org)).

**The COMCEC Project Funding Mechanism**

Through its Project Funding Mechanism, the CCO provides grants to the selected projects proposed by the relevant OIC institutions and the Member States that have already registered with the Financial Cooperation Working Group.

In 2018, two financial cooperation projects were supported under the COMCEC Project Funding. The owner of the first project titled "Training and Guidelines on Sukuk Issuance" is Nigeria and their partners are Gambia and Togo. Within the scope of the project, a training program and a workshop were organized in Nigeria. During the training program, key people from agencies related to the Sukuk were trained on effective issuance of a Sukuk from the issuance to its resale on the secondary market. Also, in the workshop, which held in Abuja with the participation of the representatives from issuing agencies, financial regulators, participants discussed effective issuance of the Sukuk. The project team will prepare a project report, in which findings of the workshop and training program will be presented.

The project titled "Improving Financial Consumer Protection in the OIC Countries" was implemented by Turkey with the participation of 11 member countries. The project aims at achieving a better functioning financial consumer protection for the OIC countries by evaluating and standardizing best practices, administrative experiences and rising trends in financial consumer protection policy field. In this regard, an international workshop with the participation of the project partners was held in İstanbul, Turkey. During the workshop, participants focused on determining a comprehensive financial consumer protection strategy by evaluating and standardizing best practices, cross-border trade and dispute resolution, administrative experiences, joint/coordinated actions, and the other rising trends in consumer protection policy field. Also, a project completion report including the results of the workshop will be prepared by the project team.

**- Other Ongoing Efforts under the COMCEC:**

**OIC Member States' Stock Exchanges Forum:** Cooperation among the Stock Exchanges was launched in 2005 in line with the decision taken by the 20<sup>th</sup> Session of the COMCEC. The Forum has held 12 meetings so far. The 11<sup>th</sup> Meeting of the Forum was held on September 11th, 2018 in Istanbul.

Along with the efforts to increase cooperation between stock exchanges, the Forum has realized important projects such as the OIC/COMCEC Index and works on important projects. Within this context, the Forum has been working on "Gold Exchange Initiative for the OIC Member Countries." The Forum Secretariat will finalize the necessary work and report the progress to 34<sup>th</sup> COMCEC Session. The detailed information regarding the activities of the Forum is available on [www.oicexchanges.org](http://www.oicexchanges.org).

- **The COMCEC Capital Market Regulatory Forum:** The COMCEC Capital Market Regulatory Forum was established in 2011 in line with the relevant resolutions of the 27<sup>th</sup> Session of the COMCEC. The Forum has held six meetings so far. The 7<sup>th</sup> Meeting of the COMCEC Capital Market Regulators Forum was held on November 8th, 2018 in Ankara.

The Forum has also been undertaking the necessary studies towards establishing a Real Estate Exchange among the OIC Member Countries. The Forum Secretariat is expected to finalize necessary legal, administrative and technological preparations for establishment of the COMCEC Real Estate electronic platform before the 34<sup>th</sup> Session of the COMCEC and present a report on the mentioned subject to the 34<sup>th</sup> Session of the COMCEC.

The details regarding the Forum activities are available on the Forum website. ([www.comceccmr.org](http://www.comceccmr.org))

- **Cooperation among the Central Banks and Monetary Authorities:** The 16<sup>th</sup> Meeting of the Central Banks and Monetary Authorities of the OIC Member States was held on September 23-25, 2018 in Antalya, Turkey. In line with the relevant resolution of the 15<sup>th</sup> Meeting, two technical background papers in the following areas: Financial Inclusion and the OIC Economic Outlook were reported to the Meeting.

