

POLICY RECCOMENDATIONS OF THE 9TH MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP

The COMCEC Financial Cooperation Working Group (FCWG) has successfully held its 9th Meeting on October 26th, 2017 in Ankara, Turkey with the theme of “Diversification of Islamic Financial Instruments”. During the Meeting, FCWG made deliberations on diversification of Islamic financial instruments. The Room Document, prepared in accordance with the main findings of the analytical study conducted for the 9th 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.

Policy Advice 1: Improving the Islamic Finance Infrastructure through Developing Necessary Legal/Regulatory Frameworks for its each Component namely, Islamic Banking, Islamic Capital Markets and Takaful towards Creating an Enabling Environment for Islamic Finance.

Rationale: Islamic finance is still at the early stages of its development in many OIC member countries compared to its conventional counterparts. Considering its potential, Islamic finance needs a conducive and enabling environment to realize its potential. It is a known fact that the countries having a strong legal environment during the early stages of the development of an industry tend to show significant progress compared to countries with insufficient legal infrastructure. In this regard, legal infrastructure constitutes an important condition for the development of the sector in any jurisdiction. The legal infrastructure should include, not only a general law but specific legal frameworks for each component of the Islamic financial sector namely; banking, capital markets, and takaful. The following specific items are of particular importance under the development of a legal system for any jurisdiction: (i) Separate Islamic Banking, Islamic Capital Markets and Takaful Law to allow for registry and operations of the companies. (ii) Taxation law to allow for a level playing field, or preferential treatment to Islamic financial products to encourage the market players to move towards Islamic finance. (iii) The legal framework for dispute resolution and arbitration. In almost all Islamic finance jurisdictions there is a need for dispute resolution centers which are governed by the Islamic law. (iv) Develop a general Islamic bankruptcy framework for the corporate sector.

Policy Advice 2: Developing a Sound and Effective Governance Framework for National and Strengthening Coordination of Shariah Governance Standards and Policies across Different Jurisdiction.

Rationale: Developing a sound governance framework at the national is of particular importance for developing Islamic Finance Industry. The following specific points can be taken into consideration while creating such a framework: (i) Shariah governance standards and framework should be incorporated in the Islamic financial law. (ii) There is a need for the further development of the Shariah governance standards especially for the takaful industry and the Islamic capital markets. Some of the global standard-setting organizations at global level such as the AAOIFI and IFSB have already issued standards which can be utilized by the OIC member countries. (iii) The existence of an independent national level advisory board can help coordinating the rules and regulations related to the Shariah governance and minimize diversity of different practices among the member countries. Since Shariah compliance is the unique differentiating factor for Islamic finance, there is also an immediate need for coordinating different Shariah Governance Frameworks among the OIC member countries to ensure that the

products and operations of Islamic financial institutions do not contradict with the principles of the Islamic Law. Policymakers of the OIC countries need to ensure a sound governance framework by making it a legal/regulatory requirement.

Policy Advice 3: Establishing/Developing Islamic Finance Rating Standards

Rationale: With the evolution of Islamic financial instruments and more focus on risk-sharing, Islamic financial transactions require a newer set of rules of book-keeping and financial reporting. A global adoption of Islamic finance accounting and reporting standards like AAOIFI is crucial for further development of the sector while ensuring transparency and disclosure in the financial reporting. A set of harmonized standards is a pre-condition for providing innovative Islamic financial instruments. While there have been efforts in this regard by AAOIFI and IFSB, there is an urgent requirement for developing detailed standards for greater Shariah compliance disclosure and a wider acceptance of these standards by the OIC member countries. In this regard, the focus can be given to develop rating standards which would help investors. While conventional rating agencies have been interested in rating for Islamic financial products, there is a need to increase and spread the rating efforts of the specialized Islamic finance rating agencies across the OIC Region.

Policy Advice 4: Strengthening Human Capital in Islamic Finance in the OIC Member Countries through Enhanced Financial Literacy and Awareness Programs/Projects by Governments, Universities and Private Sector

Rationale: Provision of adequate and trained human capital is critical to the sustainable growth of all Islamic finance sub-sectors. At the public level, governments and regulators can take initiatives to establish educational, training and research centers. Private institutions such as research and training institutions, advisory firms and trade associations can contribute to for the development of human capital. Universities and academic institutions can also play an important role not only in providing education and training in Islamic finance but also in conducting research that can support the industry.

Policy Advice 5: Facilitating Experience Sharing among the OIC Member Countries in sub-sectors of the Islamic Finance Industry for a Sustainable and Harmonized Growth of the Industry

Rationale: Some OIC member countries have taken the lead in developing the Islamic financial infrastructure and regulations. In this respect, experience sharing in the following areas among the Islamic finance destinations in the OIC Region among others: (i) Experiences related to policy development and regulatory framework enhancements (ii) Practices related to innovative sovereign sukuk issuance attracting retail investors for infrastructure development. (iii) The best practices and implementations of some member countries in the area of liquidity 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.