



Republic of Turkey
Undersecretariat of Treasury

Diversification of Islamic Financial Instruments in Turkey

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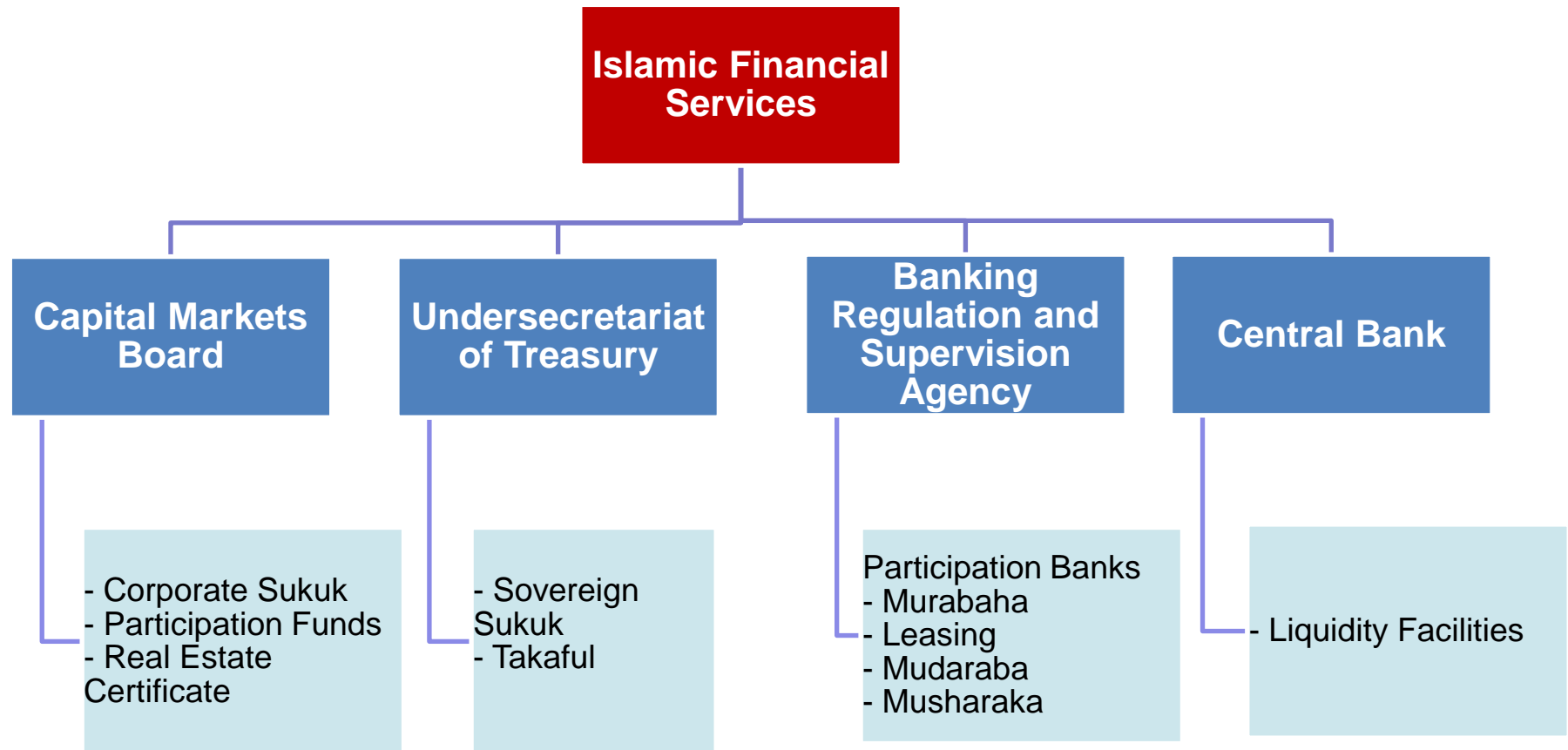
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OUTLINE

- ❑ Diversification of Islamic Finance Instrument
 - ❑ Capital Markets Instruments (Corporate Sukuk, participation funds, real estate certificates etc.)
 - ❑ Sovereign Sukuk
 - ❑ Takaful
 - ❑ Participation Banking Tools
 - ❑ Liquidity Facilities
 - ❑ Business Angel Scheme
 - ❑ Fund of Funds
- ❑ SWOT Analysis of Islamic Finance
- ❑ Legal Initiatives

Diversification of Islamic Finance Instrument by Regulators



Interest-Free Finance Coordination Board

Capital Markets Instruments

- **Capital markets instruments and institutions which deemed to be Islamic in nature**

- Lease Certificates (a.k.a. Sukuk)
- Participation Funds & Participation Pension Funds
 - Sukuk Participation Funds
 - Short-term Sukuk Participation Fund

- **Capital markets instruments and institutions that might be classified as Islamic**

- The other funds that have been approved by Capital Markets Board and that may be classified under the Islamic collective investment scheme include:
 - Real Estate Mutual Funds
 - Real Estate Investment Trusts
 - Private Equity/Venture Capital Investment Funds
- Real Estate certificates

Capital Markets Instruments

Outstanding Sukuk in Turkey

Lease Certificates (Sukuk)

A security which is issued by an asset lease company (ALC) for the purpose of financing all kinds of assets and rights, and which enables its holders to get a proportionate share from the revenues derived out of such assets and rights.

Cross Border Sukuk Issuers	Sale Proceeds	%	Maturity (Years)
Corporate Sukuk	1.694	32	5-7
Sovereign Sukuk	3.750	69	5-10
TOTAL	5.444	100	

Source: CMB, As of 2017/1H, Million USD

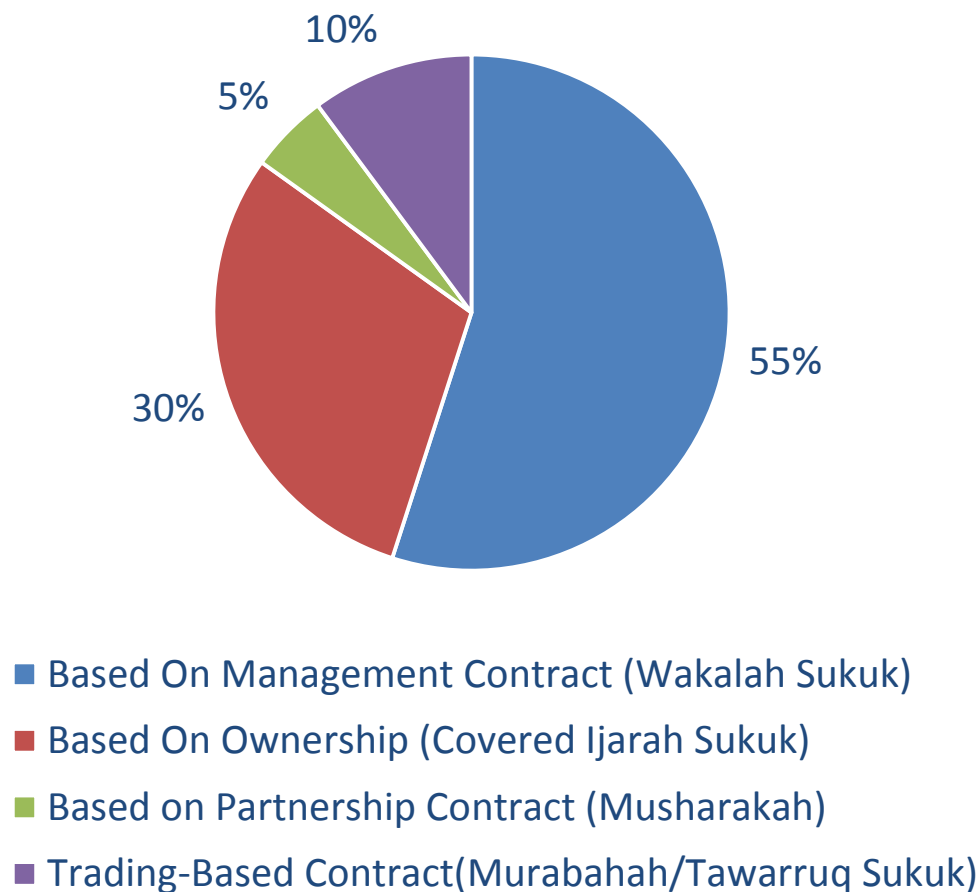
Domestic Sukuk Issuers	Sale Proceeds	%	Maturity (Years)
Corporate Sukuk	689	8	1-2
Sovereign Sukuk	8.142	92	2-5
TOTAL	8.831	100	

Source: CMB, As of 2017/1H, Million USD

Capital Markets Instruments

Outstanding Sukuk in Turkey

Types of Corporate Sukuk Issuances



Source: CMB, As of 2017/1H

Capital Markets Instruments

Collective Investment Schemes

■ Participation Funds

Participation funds are an important vehicle for the investors who prefer avoidance of interest-based transactions.

- According to legal provisions these funds can be invested in;
 - ☐ Lease certificates
 - ☐ Participation accounts at Participation Banks
 - ☐ Corporate shares
 - ☐ Gold and other precious metals
 - ☐ Other non-interest bearing capital markets instruments

Capital Markets Instruments

Collective Investment Schemes

Two specific sub-categories of Participation Funds

■ Sukuk Participation Funds

- Sukuk participation fund must invest at least 80% of its total fund value in sukuk.

■ Short-term Sukuk Participation Fund (Money Market Sukuk Participation Fund)

- Short-term Sukuk Participation Fund is wholly and permanently invest in instruments with maximum 184 days to the end of maturity, and the daily calculated weighted average maturity of portfolio of which is maximum 45 days.
- 4 short-term sukuk participation funds have been established.

■ Participation Pension Funds

- Participation Pension Funds are available for the investors who prefer non-interest based scheme.
- They have similar legal provision with participation funds.

Sovereign Sukuk

■ June 2012: The Public Finance and Debt Management Law was amended to enable the Sovereign to access the Sukuk markets:

- Allows for the establishment of public Asset Leasing Companies (SPV).
- The Sovereign is able to transfer public assets to the Asset Leasing Company in the sale-and-lease-back model.
- Assets held by the central government, state-owned enterprises and local administrations can be used.
- Allows the Asset Leasing Company to issue lease certificates both in local and international capital markets.
- Tax regime was set in a similar fashion to conventional sovereign issuances (2013).

Features of Lease Certificates

- Direct Sale
- lease period of 6 months.
- Traded on the Borsa Istanbul Debt Securities Market.
- Accepted as collateral
- HMKVŞ (SPV) has the right to purchase, sell, or dispose of the leased immovables via exchanging with an asset in equivalent value, as shall be deemed necessary and beneficial.

Sovereign Sukuk

Sukuk Issuance



Periodical Rental Payments

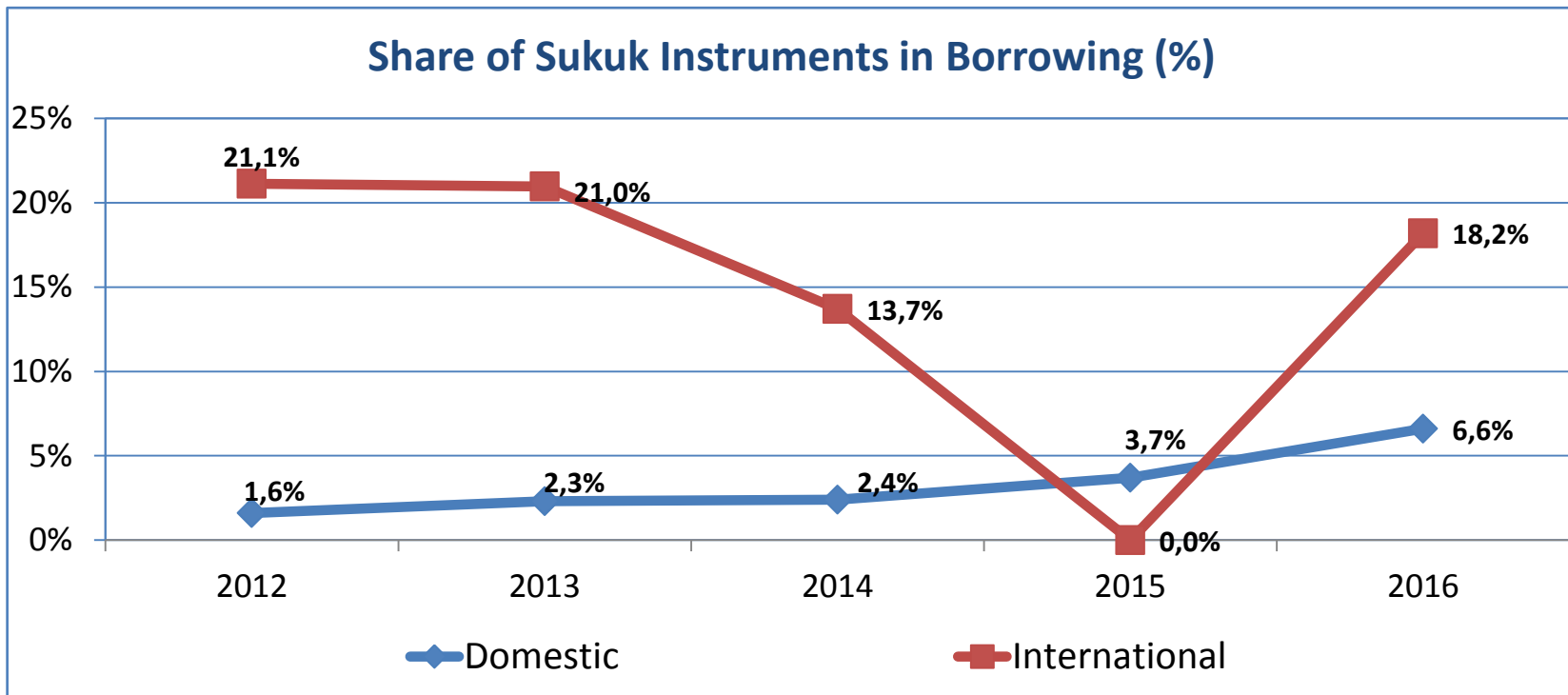


Redemption



Sovereign Sukuk

Sukuk Issuances			
Issuance	Issuance No	Amount (Billion)	Currency
International	5	6,0	USD
Domestic	16	22,0	TRY



Gold Indexed Ijara Sukuk

- Gold Indexed Ijara Sukuk started to be issued in October 2017.
- Only individual investors (natural persons) can invest in the Gold Indexed Ijara Sukuk
- Demand is collected in different rounds across Turkey through the state owned banks and only 22K and 24K golds will be accepted.
- The general information about the Securities are as follows:
 - Maturity: 2 years
 - Lease Period: 6 months
 - Lease Rate: 1,20%
 - Annual Lease Rate: 2,40%
- Investors can sell or transfer securities to another individual before maturity
- On maturity, investors may request the final payment as 1 kilogram of gold bar (produced by refineries) or Republic Gold Quarter Coins printed by Turkish State Mint

Takaful

- Currently, eight takaful companies (four of them from non-life and four of them from life business) operate in Turkey. In addition, there is no re-takaful company operating in Turkey yet.

General Takaful, Gross Written Premium (GWP)	2014	2015
GWP by General Takaful Companies (Including Windows)	544.770.560	1.139.224.098
GWP by All Non Life (General) Sector	22.709.579.092	27.264.328.716
Market Share of General Takaful Companies	2,40%	4,18%
Family Takaful, Gross Written Premium (GWP)	2014	2015
GWP by General Takaful Companies (Including Windows)	544.770.560	1.139.224.098
GWP by All Non Life (General) Sector	22.709.579.092	27.264.328.716
Market Share of General Takaful Companies	2,40%	4,18%
Market Share of Takaful (Overall)	2,13%	3,75%

Source: Turkish Treasury

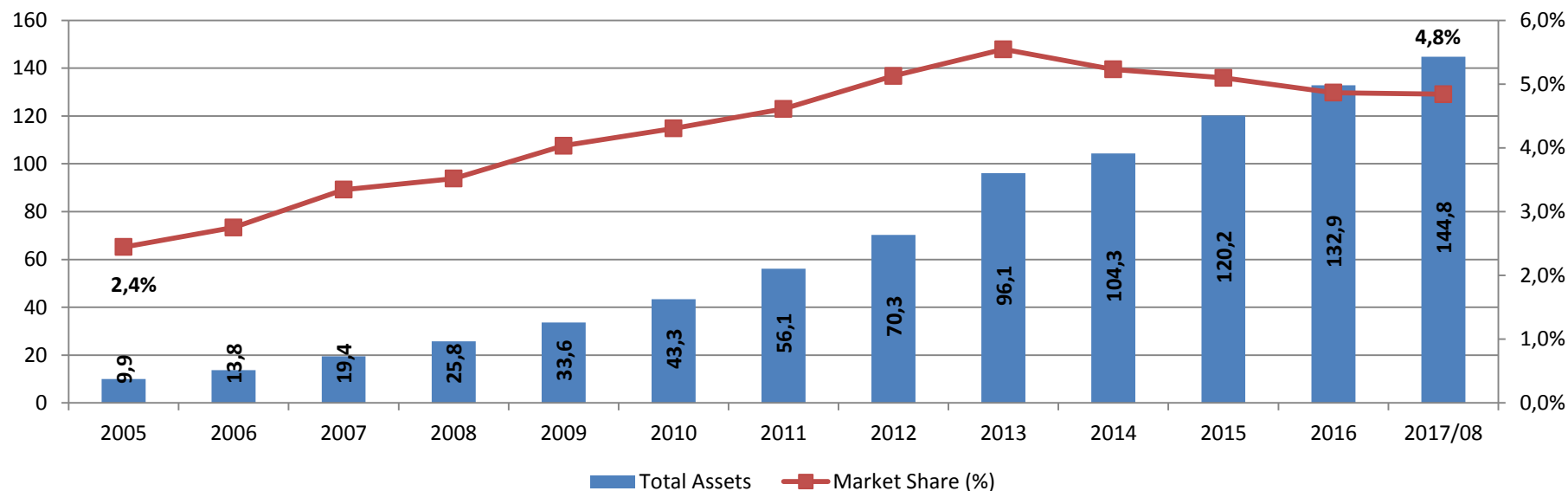
Takaful

Recent Developments

- Association of Participation Insurance was established in 2014.
- Association of Participation Insurance has been selected as a member of Interest Free Finance Coordination Board
- First Regulation on Takaful was published in September 2017:
 - Prior to Regulation, **takaful companies were subject to the same rules with conventional insurers** in Turkey.
 - Three models are permitted: **mudharaba**, **wakala** and **hybrid**.
 - Window takaful model is limited for 3 years to transform as from publication date of the Regulation.
- Besides, **secondary/additional legislation works (notice etc.)** are continuing in order to increase transparency and eliminate uncertainties for international investors and policy holders.
- It is expected that market share for takaful in Turkey would increase together with market share of participation banks.

Participation Banking Tools

PBs Total Assets and Market Size



	Amount (Thousand USD)	%
Murabaha	22.850,278	83.8%
Musharaka	145,816	0.5%
Ijara	1.109,364	4.1%
Sukuk	3.158,680	11.6%
Total	27.264,138	100%

Source: BRSA, As of 2017/1H

Liquidity Facilities

Action	Time
Establishment of IILM as a founding member and shareholder	October 2010
Membership of PBs to CBRT Liquidity Facilities	May 2011
Acceptance of Lease Certificates issued by Treasury as collateral	October 2012
Amendments in CBRT OMO Contract to ensure the compliance with participation banking principles	May 2013
Repo facility at marginal lending rate of the CBRT under markets department against Treasury TRY lease certificates	December 2013
Acceptance of IILM Sukuk as collateral	October 2014
Simplification and reduction in discount/haircut rates of collaterals	August 2015
Reduction of minimum compulsory share of TRY-denominated government securities in a certain amount of collateral pool for deposit facilities from 50% to 30%	January 2016
Late Liquidity Facility with Repo	August 2016
Intraday Liquidity Facility commission rate is reduced to zero	July 2016

Business Angel Scheme

- Business angel system started in 2013
- Main Goals are:
 - Provide a new instrument for those companies at their early development stages and having no or limited access to finance,
 - Increase professionalism and improve business culture and ethics among angel investors,
 - Make angel capital an institutionalized and trustworthy source of finance,
 - Make angel investments attractive through state supports and increase employment through encouraging entrepreneurship

Tax Incentives for Business Angels

- 75% deduction from the annual tax base,
- 100% for those investing into the companies whose projects are supported by Ministry of Science, Industry and Technology and The Scientific and Technological Research Council of Turkey and Small and Medium Enterprises Development Organization in the last 5 years,
- Capital gains are also exempted from income tax for the shares withheld at least 2 years
- As of September 2017, 430 business angels have been licensed since 2013. The amount of investment is 6.4 TRY Millions



Fund of Funds

- **Definition:** Structures with or without a legal personality which provide resources to co-investment funds as well as venture capital funds and other legal persons established to provide financing to full-fledged taxpayer companies.
- Regulation aims to arrange other matters about applying basis and procedures about fund of funds, founded to provide sources for co-investment funds, providing co-financing to enterprise companies in which angel investors and venture capital funds and legal entity invest.
- Turkish Treasury has been authorized to contribute 500 TRY Million to fund of venture capital funds and co-investment funds that invest together with the angel investors into early stage companies.
- Turkish Treasury has committed 60 EUR Millions to Turkey Growth and Innovation Fund in 2015.

SWOT Analysis of Islamic Finance

STRENGTHS

- Strong political support
- Establishing two state-owned participation banks
- Customer potential
- Government-led instrument diversification
- Establishing a coordination mechanism
- Economic growth based on development and supportiveness of real economy
- Strong IT infrastructure
- Geopolitical position
- Supporting international standard setting bodies

OPPORTUNITIES

- Bringing the Islamic finance to the international agenda
- Existence of international standards
- Becoming regional and international financial center
- Accessing to the new markets
- Potential to be a model to other countries

WEAKNESSES

- Lack of strong legal infrastructure
- Misperception about the commonly used instruments among the religious section of the population
- Public awareness
- Lack of institutional sharia governance
- Human resources
- Lack of product diversification
- Lack of capacity building activities

THREATS

- High level of competitiveness

Legal Initiatives

- BRSA prepared draft law «**Interest-free Finance Law**»
 - Examined eight countries and standards in detail
 - Malaysia, Indonesia, Bahrain, Pakistan, UAE, Kuwait, Iran, Lebanon, Sudan – IFSB and AAOIFI Shariah Standards
- The Draft Law aims to regulate two main issue:
 - Bring IFIs into compliance with the Islamic finance principles.
 - Transactions – Capital – Senior Management – Shareholders etc.
 - Establishing an effective Shariah Governance System for IFIs in Turkey.
 - Central Shariah Board
 - Shariah Boards along with sub-departments (compliance, supervision, audit) in IFIs

Legal Initiatives

- Law address not only participation banks, but also all types of IFIs and Non-financial companies concerning their Islamic financial transactions.
- Featured as an additional regulation
 - Does not make any alteration within the laws in force (e.g. Banking Law for participation banks)
- Does not includes licensing procedure (Every IFIs be licensed acc. to their primary law)



THANK YOU

For further information

<http://www.treasury.gov.tr>

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