

## **Policy Recommendations Adopted by 34th Session of the COMCEC**

- **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.

- **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).

- **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.

- **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.

- **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.

- **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.

- **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.

- **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.

- **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.