



CAPITAL MARKET  
**REGULATORS** FORUM  
COMCEC

**FINAL REPORT <sup>1</sup>**  
**COMCEC 5th CAPITAL MARKET REGULATORS FORUM**

**October 2016**

**Istanbul**

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<sup>1</sup> This report is prepared for information purposes by the COMCEC CMR Forum Secretariat, which is executed by the Capital Markets Board of Turkey.

## **FINAL REPORT**

### **COMCEC 5th CAPITAL MARKET REGULATORS FORUM**

**(Drafted by the COMCEC CMR Forum Secretariat, Capital Markets Board of Turkey)**

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COMCEC 5th CAPITAL MARKETS REGULATORS FORUM

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## **REPORT OF THE 5th COMCEC CAPITAL MARKET REGULATORS FORUM**

(Istanbul, October 27)

COMCEC 5th Capital Market Regulators Forum (COMCEC CMR Forum) convened in Istanbul on October 27th, 2016. Addressing the capital market regulators of the Organization of Islamic Cooperation (OIC) and the Standing Committee for Economic and Commercial Cooperation (COMCEC) member countries, “**COMCEC 5th Capital Markets Regulators Forum**” is hosted by the Capital Markets Board of Turkey as the Secretariat of the COMCEC CMR Forum. The delegates representing the capital market regulators from Iran, Kuwait, Malaysia and Turkey as well as representatives from the, Islamic Development Bank, the Union of Arab Securities Authorities, COMCEC Coordination Office and the Central Registry Agency of Turkey have participated in the meeting.

2016 Forum meeting has focused on the output of the "**Capacity Building**", "**Islamic Finance**" and "**Financial Literacy**" Task Forces' 2016 activities. In 2016, Forum Task Forces drafted questionnaires and reports on their respective mandates to determine the current state of status at member countries in terms of Islamic capital market, financial literacy and capacity building.

The Meeting was attended by the representatives of capital market regulatory authorities from the following COMCEC Member States:

- Securities & Exchange Organization of Iran
- Capital Market Authority of Kuwait,
- Securities Commission Malaysia,
- Capital Markets Board of Turkey

## **I. FORUM CHAIRMAN OPENING REMARKS**

Dr. Vahdettin ERTAS, Chairman of Capital Markets Board of Turkey and the Chairman of the Forum has opened the meeting with his greetings and opening speech. On the occasion of the fifth *COMCEC Capital Market Regulators Forum* meeting, Dr. ERTAŞ has welcomed all the participants from member states and international organizations. Referencing the Forum's past accomplishments since 2011, he has touched upon the Task Forces' outputs as several questionnaires and reports on issues such as Islamic Finance, financial literacy and financial disclosure. The Chairman, on behalf of the CMB Turkey and the Forum Secretariat, has thanked the Task Force Chairs and Vice Chairs, members of those Task Forces for the support and efforts they provided within five years. Dr. ERTAŞ has conveyed his deliberations regarding the current conditions of the international capital markets and global financial outlook. The Chairman has drawn attention to the interconnectedness between financial markets, while pointing out the priorities with respect to taking care of domestic markets. Having remarked this, he has underlined some common concerns for cooperation such as enhancing the diversification of financial products, developing platforms for post trade services, payment and settlement systems, improving monitoring of financial markets and institutions and launching projects supporting retail investors with financial literacy activities. In line with his statements, he has reiterated the support for cooperation by Capital Markets Board of Turkey. With respect to the General Assembly Agenda, he has briefly addressed the Task Forces 2016 activities and concluded his opening remarks by blessing a productive 5th COMCEC Capital Markets Regulators Forum General Assembly.

## **II. PRESENTATION on COMCEC FINANCIAL COOPERATION WORKING GROUP ACTIVITIES by the COMCEC COORDINATION OFFICE**

Following the opening remarks of Dr. ERTAŞ, Ms. Ayşegül EKŞİT CMB, Turkey Executive Vice Chair has greeted Forum participants and before starting discussions on the agenda items, she has invited delegates to accept the Draft Agenda. After the adoption of the Forum Secretariat's agenda proposal which was also previously resorted to the Task Force Chairs' review, she gave the floor to Mr. Okan POLAT, Expert of COMCEC Coordination Office. Mr. POLAT made a presentation on the COMCEC Financial Cooperation Working Group Activities.

His presentation titled “*COMCEC’s Endeavors in Financial Cooperation*” basically outlined the COMCEC Strategy, COMCEC Project Funding and COMCEC Financial Cooperation Working Group. Mr. POLAT has elaborated about the activities of the Financial Cooperation Working Group stating that approximating policies is the main objective and capital flows, financial inclusion, risk management in Islamic financial instruments, improving banking supervision mechanisms, retail payment systems, developing Islamic finance strategies and national and global Islamic financial architecture constitute focused themes. Finally Mr. POLAT has informed participants that COMCEC Financial Cooperation Working Group will be working on public debt management and diversification of Islamic financial instruments topics for 2017.

In response to Mr. Meysam HAMEDI’s (SEO, Iran, delegate) question on how relevant national authorities would access working group meetings and studies, Mr. POLAT offered an explanation of the working procedure of the Financial Cooperation Working Group that is based on cooperation by designated national focal point public authorities.

### **III. TASK FORCE SESSIONS**

As with Task Force activities Forum General Assembly held sessions for Capacity Building, Islamic Finance and Financial Literacy Task Forces.

#### **CAPACITY BUILDING TASK FORCE SESSION:**

#### **REAL ESTATE EXCHANGE INITIATIVE FOR COMCEC MEMBER STATES**

- **Real Estate Questionnaire and the Report, 2016 Activity**

For Capacity Building Task Force which is chaired by the Capital Markets Board of Turkey, on the initiative regarding *Real Estate Securities Exchange for COMCEC Member States*, Ms. Seçil SAYIN KUTLUCA (CMB, Turkey) made a presentation for the Task Force Questionnaire and the Report.

The background of this work dates back to the mandate given to the COMCEC Capital Market Regulators Forum by the 30<sup>st</sup> and session of the COMCEC held in 2014 in Istanbul under the

Chairmanship of H.E. Recep Tayyip ERDOĞAN, where the COMCEC had asked for a feasibility study on a possible real estate securities exchange initiative. Following the report presented to the 31<sup>st</sup> session of COMCEC held in 2015, COMCEC has called on the COMCEC Capital Market Regulators Forum to further explore benefits of establishing a joint real estate securities exchange within the context of the COMCEC. According to the deliberations by the 2014 and 2015 COMCEC meetings, real estate sector is considered to represent a new value to harness via capital markets through a joint real estate securities exchange initiative. Following the Forum's 2015 Real Estate Report, by an invitation to Forum Member Authorities, by the Forum Secretariat in December 2015, a Real Estate Working Group<sup>2</sup> was established within the Forum's Capacity Building Task Force. The Working Group conducted a questionnaire<sup>3</sup> for COMCEC member countries to elaborate the current market and regulatory landscape and the willingness of COMCEC member authorities for a joint real estate and/or real estate securities exchange initiative. Based on the findings of the Questionnaire, CMB, Turkey as the Chair of the Capacity Building Task Force has drafted a *Real Estate Securities Exchange Initiative for COMCEC Member States* Report.

Ms. SAYIN KUTLUCA, started her presentation by providing information on the stages of the initiative since 2014. Following this, she has underlined financial markets aspect of the real estate, real estate securities and a trading platform for these assets.

According to the presentation's briefings on the Questionnaire and the Report;

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<sup>2</sup> COMCEC Capital Market Regulators Forum, Real Estate Working Group is comprised of National Council of Credit, Cameroon, Ministère des Affaires Etrangères et de la Coopération Internationale, Cibuti, Dubai Financial Services Authority; Emirates Securities & Commodities Authority, Ministry of Trade Gambia, Capital Market Development Authority, Maldives, Securities and Exchange Organization Iran, Capital Market Authority, Kuwait, Securities Commission Malaysia; Ministère du Développement Durable, de l'Economie, de la Promotion des Investissements et de la Prospective du Gabon, Capital Market Authority, Oman, Securities Commission, Pakistan, Palestine Capital Market Authority, Capital Market Authority; Saudi Arabia, Capital Markets Board of Turkey.

<sup>3</sup> Following the circulation of the Real Estate Questionnaire, Cameroon National Council of Credit, Dubai Financial Services Authority (DFSA), Iran Securities and Exchange Organization, Securities Commission Malaysia, Palestine Capital Market Authority, Saudi Arabia Capital Market Authority, Capital Market Board of Turkey, Oman Capital Market Authority and the Emirates Securities & Commodities Authority answered the questionnaire and contributed to the work with their responses.

- None among 9 respondent Forum member authorities has a trading platform envisaged for real estate. Only Iran Mercantile Exchange and Turkey Tapu Takas system are to some extent relevant for real estate but they do not operate as an active trading platform for real estate.
- Legal restrictions for the trading of real estate to the foreign buyers or sellers exist in different shapes. For example, there are limits on the size of land (Cameroon, Turkey), transaction value (Malaysia), quality of land such as trading on designated areas, prohibition on trading agricultural, industrial, borderline land, integrated tourism complex, prohibition in Mecca city and Almadinah Almunawarah city, military zone (Dubai, Iran, Cameroon, Oman, Saudi Arabia, Turkey respectively), residential requirement (Iran), bilateral or multilateral agreement requirement (Iran), discrimination as to nationality (Oman, Saudi Arabia), authorization (Saudi Arabia, Iran).
- 7 out of 9 respondents support utilizing a website or an electronic trading platform for trading physical real estate on the basis of enhancing accessibility, reducing distances, harmonizing process, ease of trading, supporting liquidity and fair price discovery.
- For the real estate securities component, which Sukuk has a prominent role, it is reported that there are constraints on liquidity in the banking sector however Sukuk market is expected to be a key factor that will finance many corporations and governments in the future. Ability of Sukuk to trade freely has critical role in terms of liquidity and depth, which lead issuers to tap into greater investor universe, that call forth develop and in turn strengthen capital markets. 8 out of 9 jurisdictions think that the initiative for a common Sukuk trading platform among COMCEC member states would bring efficiency in terms of liquidity and depth for Sukuk. Moreover, a Sukuk trading platform initiative among COMCEC member states, a large number of independent yet interconnected trades could occur and the secondary market would drive the price of securities toward their actual value. A secondary market is believed to create additional economic value by allowing more transactions and almost all market prices would be more efficiently allocated.
- With respect to collective investment schemes (CIS), based on the findings of the Questionnaire, specific regulation for Islamic CIS exist in Malaysia and Dubai. In Iran's capital market all products must to be fully compatible with Islamic rules. Islamic complied funds have to meet disclosure requirements in Saudi Arabia and

participation mutual funds that are investing interest free capital market instruments are regulated in Turkey.

- In UAE, Oman and Cameroon, currently there are no specific regulations for Islamic Collective Investment Schemes. Some CIS can only be sold to qualified investors, whereas some can only be sold to public in Dubai and Turkey. CIS can only be sold to qualified and retail investors in UAE. There are no restrictions on the sale of shares/units to foreign investors in Dubai, Iran, Malaysia, Palestine, Turkey, UAE and Oman.

- **Presentation on the Model Website “Real Estate Securities Exchange Platform” for COMCEC Member States”, 2016 Activity**

With the objective of modelling the proposed real estate securities exchange initiative and the OIC Stock Exchanges Forum Gold Exchange Initiative, COMCEC CMR Forum Secretariat has modelled a demo website for the Real Estate Securities Exchange platform for physical real estate, real estate securities and gold. Ms. Seçil SAYIN KUTLUCA has delivered a presentation to introduce this model website before the delegates have provided their views and comments for real estate securities exchange initiative. According to the briefing; The model website designed with access to three trading platforms aims to be an information hub which is providing guidance and reliable information as to legal framework, restrictions, and prerequisites for investing on real estate, real estate projects, real estate securities (*Sukuk, shares of Real Estate Investment Trusts, Real Estate Mutual Funds, Real Estate Certificates*) and gold portfolios (*physical gold and financial instruments based on gold*).

Facilitating investing and financing aspects for real estate, real estate projects, real estate securities and gold constitute the main objective. In addition it is considered that such an initiative is instrumental for improving cooperation among COMCEC countries’ financial institutions,

In order to realise this Platform, it is envisaged that member countries should designate a competent authority to upload confirmed information about the assets which can be screened and/or traded on the Platform. After relevant competent authority confirms the accuracy of the

information, the information can be uploaded to the Platform website in English, Arabic and the relevant country's language.

On the real estate securities platform, it is considered that member stock exchanges will have a separate country page and they will announce relevant information on Securities that will be traded on the Platform in this page, Stock exchanges should provide access to each other on these pages.

Buy and sell orders on the platform should be transmitted by the competent intermediary institutions of the relevant COMCEC member country directly or by way of intermediary institutions in agreement with the member country receiving the order.

According to the Task Force Chair, CMB, Turkey, it is reported that next steps for the real estate and gold platform could be; obtaining consensus by the COMCEC CMR Forum Member authorities for realising the platform initiative, designation of relevant competent authorities for each segment of the platform by COMCEC member countries, exchanges setting up technological infrastructure with cooperating countries' stock exchanges for real estate Securities, gold platform and promotion and operational activities for the Platform.

Following the presentations on the real estate securities exchange initiative, delegates have welcomed the work done by the Real Estate Working Group and raised their questions and comments.

Mr. Jalil TARIF (Union of Arab Securities Regulators, General Secretary) has stated that the Report should be supported with further information and data on the role of real estate in the economy. He has underlined that the diversity of the initiative such as physical real estate transactions can go beyond the powers of securities authorities. In addition, Mr. TARIF has suggested that a stages approach can be followed while making the initiative operational. In other words, before a trading platform is active, it should serve as an information hub for investors.

Mr. Faisal EL FAHAD, (CMA, Kuwait, delegate) the Forum should take into consideration the trustworthiness of valuation reports and dispute settlement issues.

Mr. Haseeb Ullah SIDDIQUI, (Islamic Development Bank, Lead Specialist) made a remark for gold transactions that Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) work on developing a standard should be taken into account.

Mr. Meysam HAMEDİ, (SEO,Iran, delegate) stated that education of investors, passporting system for real estate, an MoU among central securities depository (CSD) institutions could be helpful. He has also suggested to prepare a return data for real estate securities.

Mr. Mohd Radzuan TAJUDDIN (Securities Commission, Malaysia, delegate) agreed with the stages approach in course of establishing a platform for trading.

In response to the questions and comments, Ms. Gül ERTAN İLAL, Ms. Ayşegül EKŞİT and Ms. Seçil SAYIN KUTLUCA have stated that stages approach mentioned by the delegates for the realisation of real estate platform is well noted and it is expected that as a natural course of progress the study would develop in such a fashion with the cooperation of participating countries. More specifically, in initial phases, the platform would screen and promote issued real estate securities such as Sukuk, real estate and real estate projects in participating COMCEC countries' financial markets. In order to build trust for investors on the proposed initiative, it is expected that COMCEC member states appoint one or more of their competent public/private authorities due to the type (physical real estate/real estate security) of the trading platform for providing information. For a real estate securities trading platform, cooperation among stock exchanges and central securities depositories is will be crucial.

Appraisal reports should be prepared by licensed appraisal firms, if any.

With respect to dispute settlement issue, Mr. POLAT (COMCEC Coordination Office) has informed the participants that establishment of an OIC level dispute settlement centre is being discussed currently. Therefore OIC procedures, developments should be followed in this regard.

## **ISLAMIC FINANCE TASK FORCE SESSION**

- **Presentation for the Islamic Finance Task Force Questionnaire**

### **"Improving the Capacity of Shari'ah Scholars in Islamic Finance"**

Islamic Finance Task Force Chair, Securities Commission Malaysia made a presentation for the Islamic Finance Task Force 2016 Questionnaire titled "Improving the Capacity of Shari'ah Scholars in Islamic Finance". The Questionnaire constitutes a first step in the current initiative of the Task Force on promoting continuous professional development for Shari'ah Advisers. The initiative aims to share experiences on Shari'ah scholars' training initiatives in their respective jurisdictions; and identifying appropriate training programmes on Islamic finance for Shari'ah scholars. According to the survey's key findings for in a sample of 11 OIC countries, there is a shortage of Shari'ah scholars in Islamic capital markets. Moreover, no regular, specialized training programmes exist for Shari'ah scholars and there is budgetary constraints. Task Force proposes to improve collaboration among OIC member countries to organise specialised training programmes for Shari'ah scholars in Islamic finance through COMCEC Project Funding Multilateral or bilateral arrangement among training institutions, international regulators, and/or industry, leveraging on the existing training programmes available in the market, engage with experts from the established centres, provide more interactive discussion with practitioners.

## **FINANCIAL LITERACY TASK FORCE SESSION**

- **Financial Literacy Task Force Questionnaire**

### **"Protect Investors Through Financial Literacy in Securities Markets"**

Mr. Meysam HAMEDI informed the participants on the basis of objectives and review of International Organizations for Financial literacy such as IOSCO, OECD; what the Financial Literacy Task Force has done in its term and in 2016.

Mr. HAMEDI also presented the 2016 survey findings. Financial Literacy Task Force 2016 Questionnaire aims to assess existence of key financial literacy issues, specify areas in need of promotion and determine strengths of member states for further cooperation among COMCEC

member states. According to his remarks, United Arab Emirates; Islamic Republic of Iran; The Hashemite Kingdom of Jordan; State of Kuwait; Malaysia; Republic of Maldives; State of Palestine; Islamic Republic of Pakistan; Republic of Turkey have contributed to the Questionnaire.

In addition, the questionnaire aims to review outstanding programs and plans of regulatory bodies and make comparison feasible.

Presenting the questions and responses, he has emphasized that although capital market regulators allocated budget to financial literacy related programs, their main focus has been based on regulation, not education. Therefore, outsourcing educational programs should be the main trend. On behalf of the Task Force, he suggested promoting financial literacy for trainers, creating a unified portal for awareness and education and developing initiatives aimed at improving financial knowledge of regulatory staff. He has concluded that based on the survey findings, it can be inferred that although there are some deficits, we are moving in a right direction.

#### **IV. OTHER ISSUES**

- **Future Co-Operation/Work Programme for 2017**

The participants of the Forum General Assembly have deliberated on the possible next steps of the general work plan with respect to the Task Forces.

Capacity Building Task Force, on the Real Estate Working Group initiative, which the Forum have worked on the basis of the mandate by the 30. and 31. COMCEC Ministerial Sessions, will be following the decisions by the 32. COMCEC Meeting to be held in 21-24 November 2016. COMCEC CMR Forum will be reporting the 32. COMCEC meeting that the 2016 COMCEC CMR Forum General Assembly delegates have stated their support for the initiative and emphasized the importance of a stages approach to realize the initiative. Unanimously, the participants agreed that before the initiative is set to be operational as a trading platform, it should serve as an information hub for investors. Following this mode of cooperation, determining the added value of the initiative for COMCEC financial markets and the economies, securing the

reliability of the information, building essential infrastructure for trading facilities, coherent work with relevant stakeholders such as stock exchanges, dispute settlement centres and promoting investor awareness phases constitute utmost importance.

In accordance with the abovementioned views and discussions in the Forum meeting and the 32. COMCEC decision regarding the issue, Capacity Building Task Force will inform the Forum member authorities about the 2017 Task Force agenda on the real estate securities exchange /trading platform work.

Islamic Finance Task Force, have stated working further on recommendations on proposed solutions by the Task Forces findings in their questionnaires, reports and workshops. Also for improving collaboration among OIC member countries to organise specialised training programmes for Sharī'ah scholars in Islamic finance, multilateral or bilateral arrangement among training institutions, international regulators, and/or industry Islamic Task Force could continue working on a funding model for further cooperation.

Financial Literacy Task Force has stated that Task Force should exchange experiences and information, promote financial literacy for trainers, create a unified portal for awareness and education and develop initiatives aimed at improving financial knowledge of regulatory staff and also suggested that for enhancing cooperation, related OIC institutions working on financial literacy issues can coordinate their work.

- **Designation of Task Force Chairs, Co-Chairs**

According to the Forum Task Force Statutes, by consensus the Chairs of the Task Forces are renewed every two year. The last designation was made in 2014 Forum General Assembly. Therefore, Designation of Task Force Chairs, Co-Chairs item was on the Forum Agenda. Since the Secretariat has not received any nomination, and the delegates have not indicated any change for Task Force Chairs, Co-Chairs, it is decided to continue current appointments. For Market Development Task Force, since Securities Commission, Pakistan has opted out as Chair of the Task Force, CMA, Kuwait delegate has expressed interest for the Market Development Task Force Chair and the Forum has accepted this nomination.

**Annex**

**COMCEC 5th CAPITAL MARKETS REGULATORS FORUM**

**(Participants List)**

**Place/Date** : Istanbul-27.10.2016

<b>No</b>	<b>Participant's Name and Surname</b>	<b>Country/Institution</b>	<b>Title</b>
1	Dr. Vahdettin Ertas	TURKEY/Capital Markets Board Of Turkey/ COMCEC Capital Markets Regulators Forum	Chairman
2	Mr. Meysam Hamedi	IRAN / Securities and Exchange Organization	Supervisory Expert, R&D and Islamic Studies Dept.
3	Dr. Faisal Al Fahad	KUWAIT / Capital Markets Authority	Commissioner
4	Mr. Radzuan Ahmad Tajuddin	MALAYSIA / Securities Commission	General Manager

5	Mr. Haseeb Ullah Siddiqui	SAUDI ARABIA/ Islamic Development Bank Group	Lead Specialist - Islamic Finance Advisory and Technical Assistance Division
6	Jalil Tarif	Union of Arab Securities Regulators	General Secretary
7	Okan Polat	Comcec Coordination Office, Turkey	Expert
8	Ayşegül Ekşit	TURKEY/ Capital Markets Board of Turkey	Executive Vice Chairman
9	Gül Ertan İlal	TURKEY/ Capital Markets Board of Turkey	Head of Strategy Development Department
10	Seçil Sayın Kutluca	TURKEY/ Comcec CMR Forum Secreteriat	Senior Legal Expert
11	İliç Başak Karakoç	TURKEY/ Capital Markets Board of Turkey	Expert
12	Dilara Kankoç	TURKEY/ Capital Markets Board of Turkey	Expert
13	Ebubekir Saner	TURKEY/ Capital Markets Board of Turkey	Expert

14	Ahmet Taşçı	TURKEY/ Capital Markets Board of Turkey	Expert
15	Deniz Tunca	TURKEY/ Capital Markets Board of Turkey	Assistance Expert
16	Dr. Özgür Uysal	TURKEY / MKK	Dış İlişkiler ve Raporlama Müdürü
17	Gökçe İlirış	TURKEY / MKK	Dış İlişkiler ve Kurumsal İletişim Birim Yöneticisi
18	Emre Cebeci	TURKEY / MKK	İhraççı Hizmetleri ve ELÜS İşlemleri Birim Yöneticisi