

17th MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP



Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)



afrika
V A K F I
AFRICA FOUNDATION

Session 1

Standardization Efforts in Islamic Finance

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Introduction

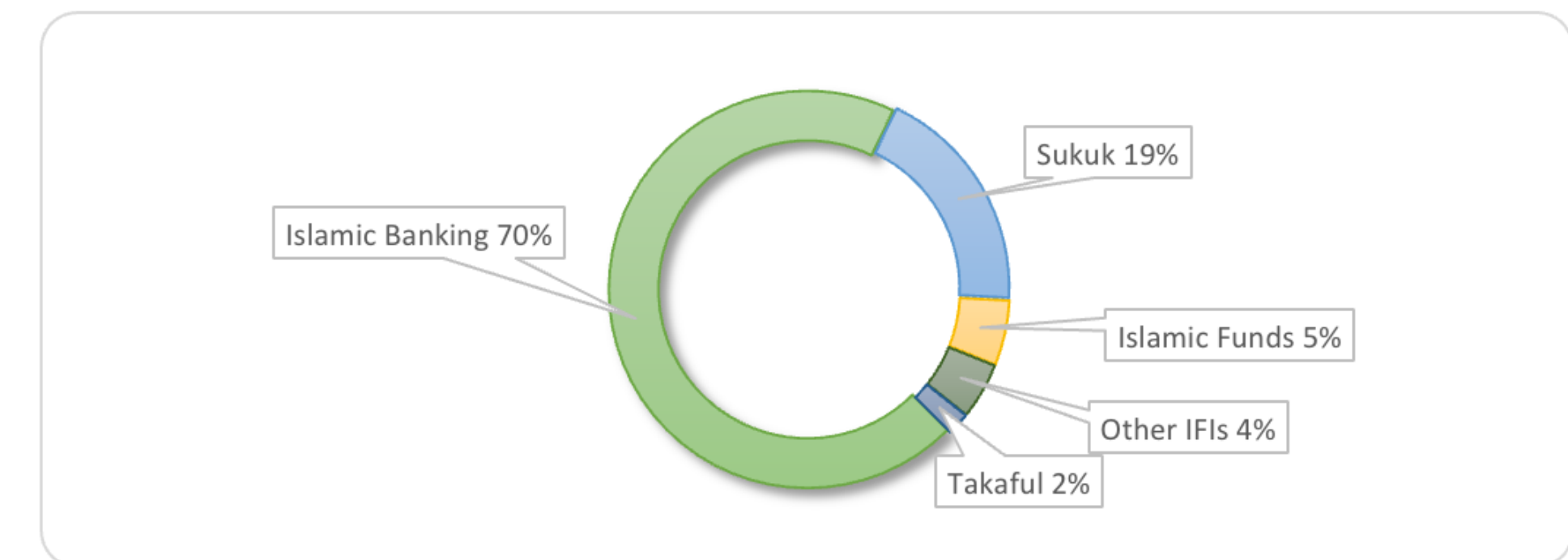
- Islamic finance has recorded significant growth rates since the first IFIs were established in the late 1960s.
- Also, institutional / product diversity is also increasing, and IFIs are spreading to different countries.
- However, the market share of IFIs is very small compared to the global finance sector, and several significant issues have to be tackled.
- The lack of standardization is seen as one of the most crucial issues in front of the industry.
- There are certain areas where greater standardization and codification need to gain wider acceptance among regional and international investors.
- There is still limited standardization in some cases even at the local level, and progress would be required on a regional and/or global basis.

Table 1: Islamic Finance Assets distribution (US\$, year 2020)

Component	Amount (US\$ Bln)	Share	Institutions/ Instruments
Islamic Banking	2,349	70%	527
Sukuk	631	19%	3,805
Islamic Funds	178	5%	745
Other IFIs	154	4%	1,698
Takaful	62	2%	323
Total	3,374	100%	

Source: IFDI (2021)

Figure 1: Global Islamic Finance Industry Assets Distribution



Source: IFDI (2021)

Table 2: Top Performing 10 Countries

Rank #	Islamic Banks	Takaful	Other IFIs	Sukuk	Islamic Funds
1	Iran	Iran	Malaysia	Malaysia	KSA
2	KSA	KSA	Iran	KSA	Iran
3	Malaysia	Malaysia	KSA	Indonesia	Malaysia
4	UAE	Indonesia	Qatar	UAE	UK
5	Kuwait	UAE	Kuwait	Qatar	Luxembourg
6	Qatar	Turkey	Switzerland	Turkey	Indonesia
7	Bahrain	Qatar	UAE	Iran	USA
8	Turkey	Bangladesh	Brunei	Bahrain	Pakistan
9	Bangladesh	Pakistan	Senegal	Kuwait	South Africa
10	Indonesia	Brunei	Egypt	Oman	Kuwait

Source: IFDI (2021)

- ◆ Limited number of jurisdictions has adopted AAOIFI standards.

Table 4: Adoption of AAOIFI Standards by Countries and Jurisdictions

Country/ Jurisdiction	Shari'ah Standards	Accounting Standards	Governance Standards
Afghanistan	Y	Y	Y
Bahrain	Y	Y	Y
Iraq	Y	Y	-
Jordan	Y	Y	Y
Kyrgyzstan	Y	Y	Y
Lebanon	Y	Y	-
Libya	Y	Y	-
Mauritius	Y	Y	-
Nigeria	Y	Y	Y
Oman	Y	Y	Y
Palestine	Y	Y	-
Pakistan	Y	Y	Y
Qatar	Y	Y	Y
Sudan	Y	Y	Y
Syria	Y	Y	Y
UAE	Y	-	-
Yemen	Y	Y	Y
AFSA, Kazakhstan	Y	-	-
DIFC, Dubai	Y	-	-
IsDB Group	Y	Y	-
QIFC, Qatar	Y	Y	Y

Notes: AFSA is Astana Financial Services Authority, DIFC - Dubai International Financial Centre, IsDB Group - Islamic Development Bank Group, QIFC - Qatar International Financial Centre. *Source:* Adopted from [AAOIFI \(n.d.\)](#).

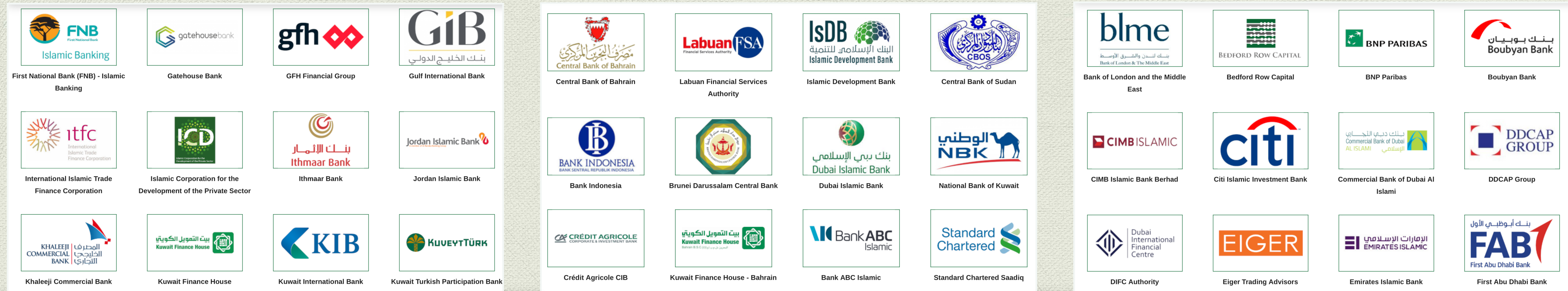
More countries to join IFSB and implement its standards.

IFSB Full Members			
1. Bahrain	8. Iraq	15.Mauritius	22.Sudan
2. Bangladesh	9. Jordan	16.Morocco	23.Turkey
3. Brunei	10.Kazakhstan	17.Nigeria	24.UAE
4. Djibouti	11.Kuwait	18.Oman	25.IsDB
5. Egypt	12.Libya	19.Pakistan	
6. Indonesia	13.Malaysia	20.Qatar	
7. Iran	14.Mauritania	21.Saudi Arabia	

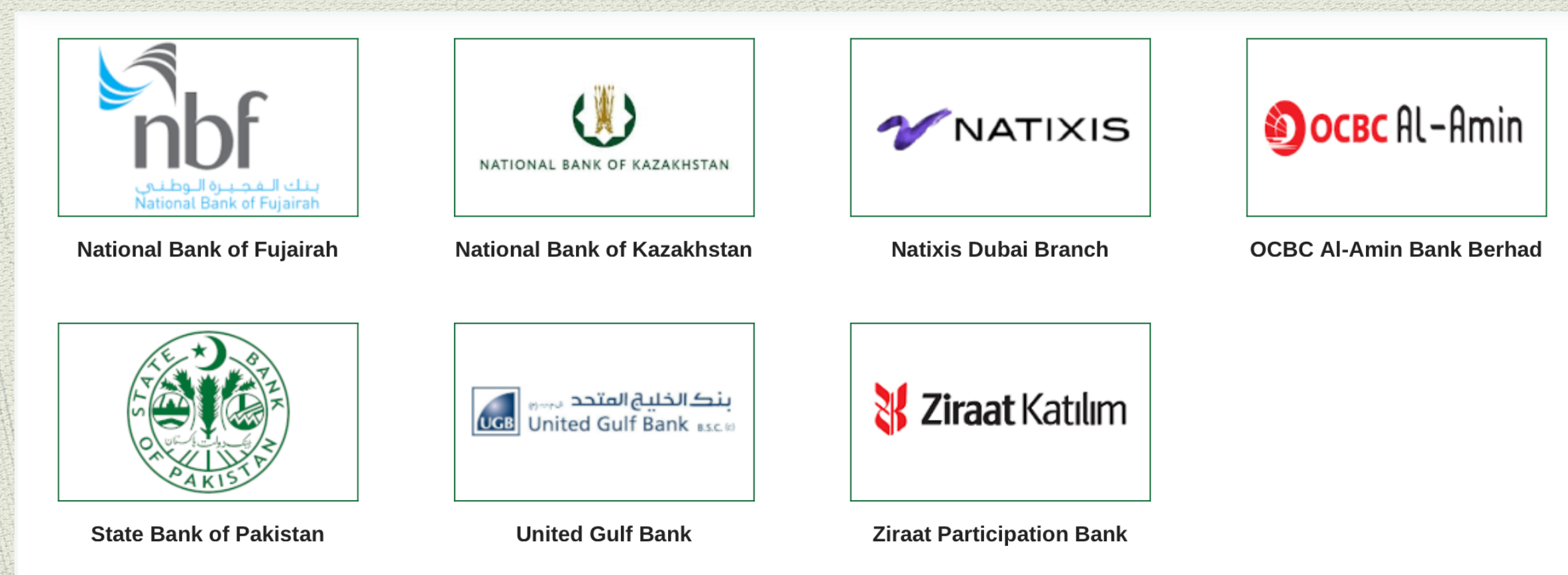
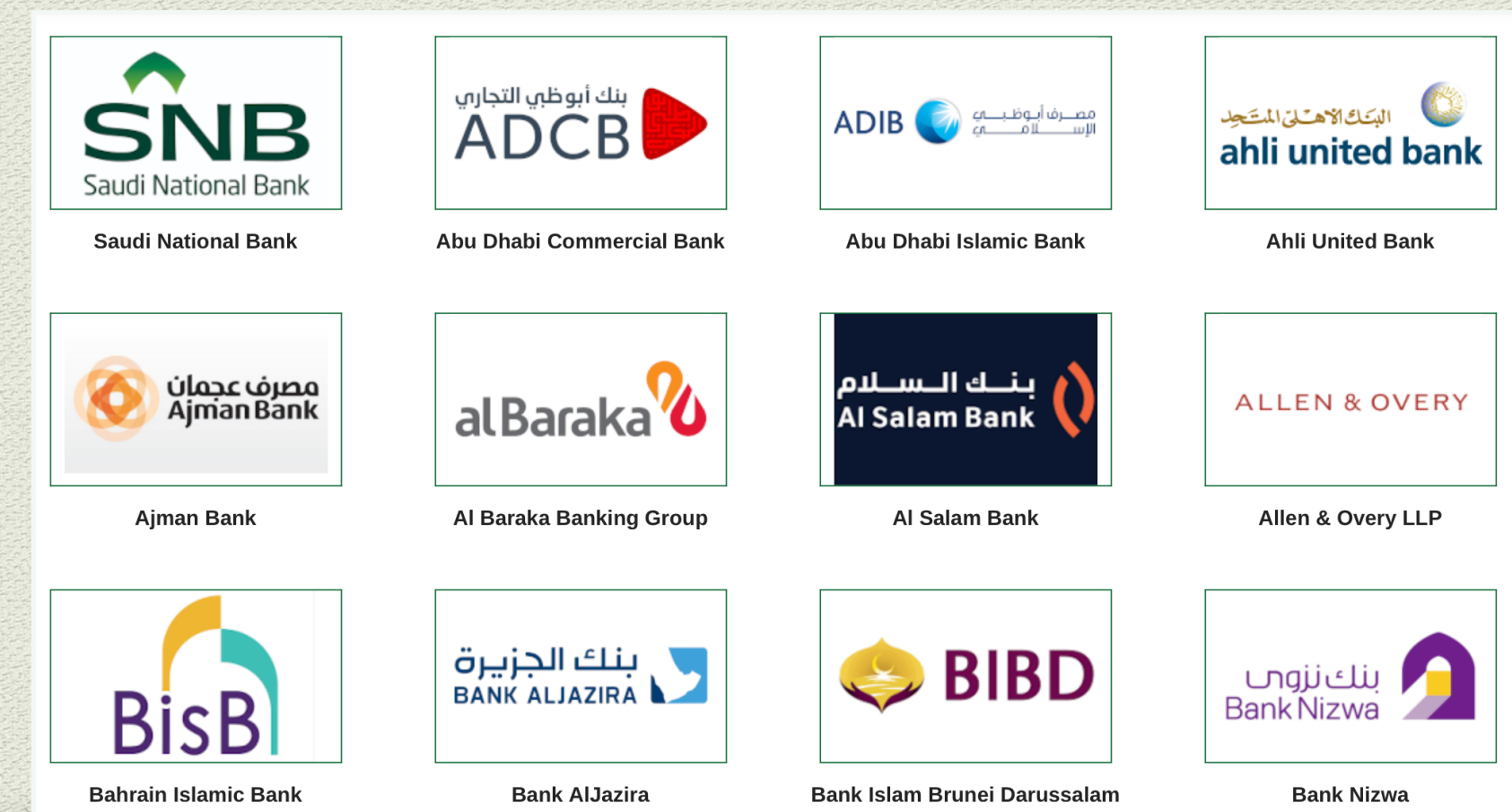
Table 6: List of IFSB Full Members

#	Country	Organisation
1	Bahrain	- Central Bank of Bahrain
2	Bangladesh	- Bangladesh Bank
3	Brunei	- Brunei Darussalam Central Bank
4	Djibouti	- Banque Centrale De Djibouti
5	Egypt	- Central Bank of Egypt
6	Indonesia	- Bank Indonesia - Indonesia Financial Services Authority
7	Iran	- Central Bank of the Islamic Republic of Iran - Securities and Exchange Organization
8	Iraq	- Central Bank of Iraq
9	Jordan	- Central Bank of Jordan
10	Kazakhstan	- Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market - Astana Financial Services Authority (AFSA)
11	Kuwait	- Central Bank of Kuwait
12	Libya	- Central Bank of Libya
13	Malaysia	- Bank Negara Malaysia - Securities Commission of Malaysia
14	Mauritania	- Central Bank of Mauritania
15	Mauritius	- Bank of Mauritius
16	Morocco	- Bank Al-Maghrib
17	Nigeria	- Central Bank of Nigeria - National Insurance Commission - Nigeria Deposit Insurance Corporation (NDIC)
18	Oman	- Central Bank of Oman
19	Pakistan	- State Bank of Pakistan
20	Qatar	- Qatar Central Bank
21	Saudi Arabia	- Capital Market Authority - Saudi Central Bank
22	Sudan	- Central Bank of Sudan
23	Turkey	- Banking Regulation and Supervision Agency - Central Bank of the Republic of Turkey - The Insurance and Private Pension Regulation and Supervision Agency of Turkey (IPRSA)
24	UAE	- Central Bank of the United Arab Emirates - Dubai Financial Services Authority
25	International Organization	- Islamic Development Bank

Source: <https://www.ifsb.org/membership.php?id=1>



More institutions to join IIFM and adopt its standards.



Viewpoints

In general,

- ◆ it is an effective way of **disseminating information**,
- ◆ they result in greater **coordination** of activities,
- ◆ they lead to the **simplification of processes**.
 - ◆ Standards enhance international coordination and collaboration by creating consistency and homogeneity even among individuals and organizations that are **geographically dispersed**.
 - ◆ Standardization improves **clarity** and guarantees the **quality** of processes. It minimizes the likelihood of someone omitting critical information.
 - ◆ Standardization is expected to result in uniformity: many people will look and act the same way.

Viewpoints

From the Islamic Finance Industry perspective:

- ◆ **The lack of unanimity** among Shari'ah scholars from different schools of thought (*Madhahib*) has **impeded the growth** of the IF industry. As a result of the diversity of viewpoints, there are debates over the legitimacy of certain features of Islamic finance products offered in the markets.
- ◆ Standardization entails producing uniform Shari'ah standards **reducing the shortage of Shariah scholars** and **consolidating Shari'ah interpretations**.
- ◆ Standardization would make the product development process **more efficient and transparent**.

- ◆ Without standardization, the industry is highly susceptible to '**Shari'ah arbitrage**,' opening the doors for '**fatwa shopping**' by market players looking for resolutions that best serve their own interests and creating *loopholes* that are exploited by 'creative' financial engineers.
- ◆ Standardization facilitates the **integration** of the IF industry into the mainstream global financial system.
- ◆ *On the other side*, critics assert that standardization would **curb innovation** as standardization is often promoted by international quasi-governmental organizations.

Conclusion: The expected gains to the Islamic finance industry include greater stability, transparency, cost efficiency, and lower Shari'ah risk and systemic risk, which are critical for the cross-border competitiveness of Shari'ah-compliant financial instruments.

Research Objective

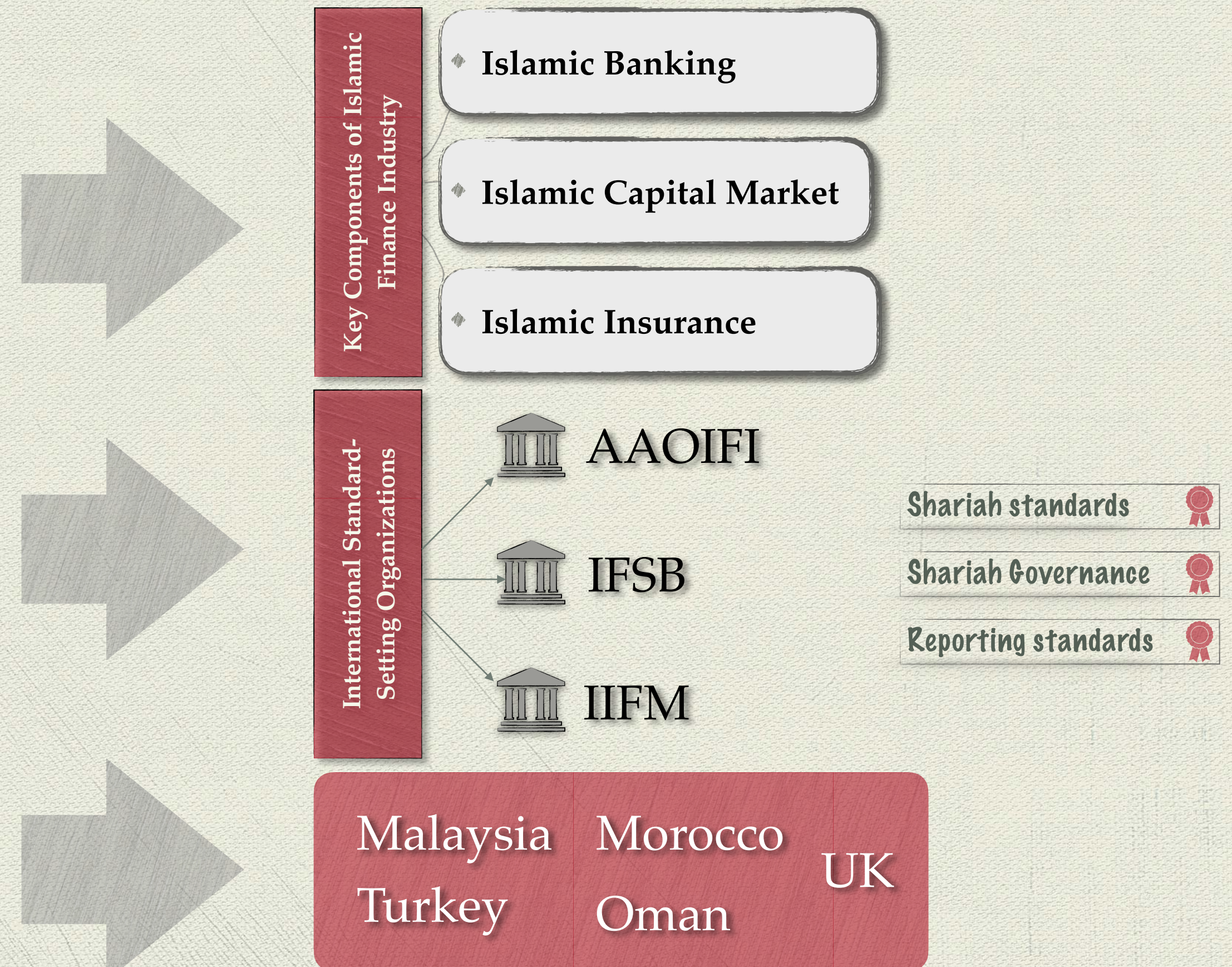
The aim of this study is

- ◆ To elaborate and analyze the recent **initiatives and issues on the standardization in Islamic finance** by covering key IF sectors with a particular focus on developments at national and global levels in *OIC Member Countries*.
- ◆ To review the **best practices** and provide **policy recommendations** based on the findings of the study.

Scope of the Report

◆ The study focuses on

1. **standardization efforts in Islamic finance** at local, regional, and international levels;
2. the roles and initiatives of **key international standard-setting institutions** towards Islamic financial sector;
3. **detailed analysis** of standardization efforts in selected 5 countries.



Structure of the Report

Chapter I

Introduction

1. Background of the Report
2. Basic Concepts and Conceptual Framework
3. Global Efforts and Initiatives

Chapter II

Trends, Issues, and Challenges in Standardization

1. Cross-Country Initiatives in Islamic Finance
2. Adoption of IF Standards
3. Structural, Regulatory and Technical Issues
4. Trends in Leading IF Markets
5. Best Practices in Standardization

Chapter III

Case Studies

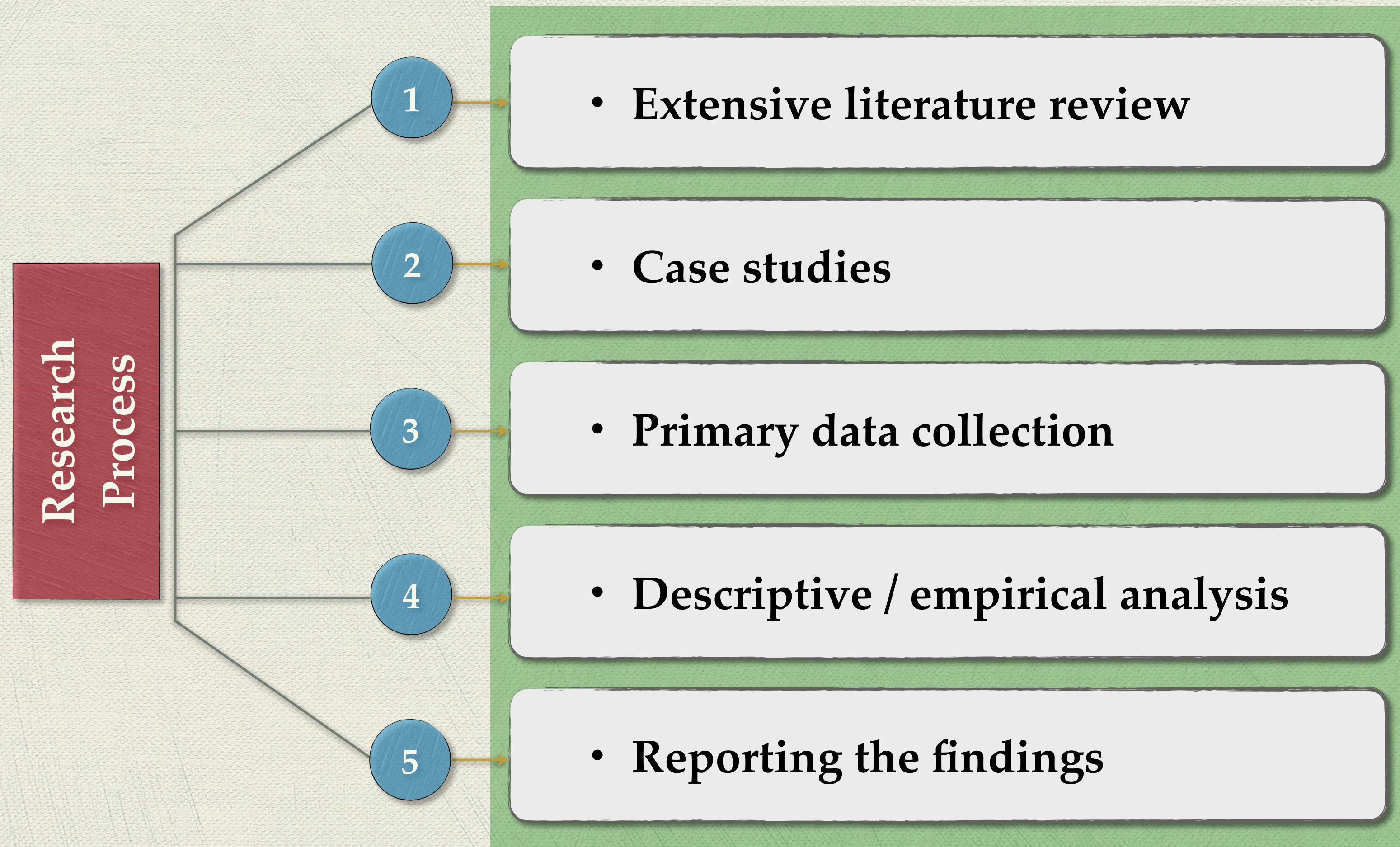
1. Islamic Finance Landscape
2. Legal, Regulatory and Shariah Framework
3. Current Trends, Issues and Challenges in Standardization
4. Lessons Learnt
5. Country-specific policy recommendations and Implications

Chapter IV

Policy Recommendations

1. Concluding Remarks
2. Detailed Policy Recommendations

Research Methodology



Selected Case Study Countries

Country	Group	OIC	Legal System	IFDI Ranking
Malaysia	Asian	Yes	Mixed (Shariah Law and English Common Law)	# 1
Morocco	African Arab	Yes	Mixed (Shariah Law and French Civil Law)	# 29
Turkey	Asian	Yes	Civil Law	# 15
Oman	Arab	Yes	Mixed (Shariah Law and Anglo-Saxon Law)	# 9
UK	European	No	English Common Law	# 25

Note: Sorted in alphabetical order.

Case Study Countries Selection Criteria

IFDI Ranking

1

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Market	OIC	Group	2020	2019	2018	2017	2016	2015
Malaysia	Yes	Asian	1	1	1	1	1	1
Indonesia	Yes	Asian	2	2	4	10	10	10
Saudi Arabia	Yes	Arab	3	5	5	5	5	5
Bahrain	Yes	Arab	4	3	2	2	2	2
United Arab Emirates	Yes	Arab	5	4	3	3	3	3
Jordan	Yes	Arab	6	6	6	6	8	8
Pakistan	Yes	Asian	7	7	7	4	6	6
Kuwait	Yes	Arab	8	9	8	8	7	7
Oman	Yes	Arab	9	8	9	7	4	4
Maldives	Yes	Asian	10	12	12	12	12	12
Qatar	Yes	Arab	11	10	11	11	9	9
Brunei	Yes	Asian	12	11	10	9	14	14
Nigeria	Yes	African	13	13	14	14	26	26
Bangladesh	Yes	Asian	14	16	13	13	16	16
Turkey	Yes	Asian	15	18	16	20	25	25
Iran	Yes	Asian	17	17	18	16	19	19
Palestine	Yes	Arab	18	23	22	21	15	15
Tunisia	Yes	Arab	19	22	20	24	17	17
Syria	Yes	Arab	20	15	24	32	21	21
Iraq	Yes	Arab	22	25	26	29	49	49
Kazakhstan	Yes	Asian	24	21	21	22	31	31
Morocco	Yes	Arab	29	26	28	25	30	30
Gambia	Yes	African	30	32	31	34	32	32
Yemen	Yes	Arab	34	35	34	35	24	24
Egypt	Yes	Arab	35	27	27	26	23	23
Algeria	Yes	Arab	36	41	46	48	47	47
Djibouti	Yes	Arab	37	38	38	31	33	33
Kyrgyzstan	Yes	Asian	38	39	41	37	43	43
Uganda	Yes	African	41	48	94	45	63	63
Somalia	Yes	Arab	42	36	35	41	42	42

Expected Outcomes

- ◆ The study aims to provide **concise, systematic, and viable policy recommendations to the OIC Member countries** for tackling their standardization issues *to facilitate further acceleration of IF development* by taking into consideration the best practices and lessons learned from case studies.
- ◆ The findings and recommendations shall be beneficial to **policymakers of the OIC and non-OIC member countries, the international community, as well as international organizations.**

Research Team: Experts and Advisors

- ◆ Experts with Shari'ah and Islamic Finance academic backgrounds
- ◆ Experts with direct exposure to Islamic Finance industry
- ◆ Researchers

Project Team	Affiliation
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THANK YOU FOR YOUR KIND ATTENTION!