



COMCEC

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

**Proceedings of the 18th Meeting of the
COMCEC Financial Cooperation Working Group**

“Standardization Efforts in Islamic Finance”



COMCEC COORDINATION OFFICE

October 2022

**PROCEEDINGS OF THE 18TH MEETING OF THE
COMCEC FINANCIAL COOPERATION WORKING GROUP**

ON

“Standardization Efforts in Islamic Finance”

(October 3th, 2022, Virtual Meeting)

(2nd Meeting – Final Draft of Research Report and Policy Recommendations)

COMCEC COORDINATION OFFICE

October 2022

For further information please contact:

Ms. Seyyide Ravza OKSÖYLER

Assistant Expert

COMCEC Coordination Office

Necatibey Caddesi No: 110/A

06100 Yücecepe

Ankara/TURKEY

Phone : 90 312 294 57 04

Fax : 90 312 294 57 77

Web : www.comcec.org

e-mail : finance@comcec.org

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1. Introduction

The 18th Meeting of the COMCEC Financial Cooperation Working Group was held on October 3th, 2022 in a virtual-only with the theme of “Standardization Efforts in Islamic Finance”. The representatives of 16 Member States, which have notified their focal points for the Financial Cooperation Working Group, attended the Meeting.

(The Agenda and Program of the Meeting are attached as Annex-I and Annex-II)

The meeting was further attended by the representatives of the SESRIC, SMIIC, IsDB, CIBAFI, AAOIFI, OIC Exchanges Forum, COMCEC Capital Markets Regulators Forum, OIC-COMCEC Central Banks Forum, Participation Banks Association of Türkiye (TKBB), Public Oversight, Accounting, and Auditing Standards Authority of Türkiye (KGK), and COMCEC Coordination Office.

(The List of Participants of the Meeting is attached as Annex-III)

The Meeting started with a recitation from the Holy Quran. Mr. Selçuk KOÇ, Acting Director General of the COMCEC, delivered an opening speech and gave the floor to Mr. Deniz YILMAZ, Chairperson of the Meeting. It was followed by the brief information provided by Mr. Ahmet Faruk AYSAN, the coordinator of the research team. Then, Dr. Ruslan NAGAYEV and Assoc. Prof. Dr. Said BOUHERAOUA made a presentation on selected case countries. Afterwards, Dr. Mustafa DISLI and Mr. Ahmet Faruk AYSAN made his presentation on the theme regarding to survey results and conclusions and policy recommendations

The participants were presented the final draft of the research report including the introductory part, trends, issues, and challenges in Standardization, case-countries examination, survey analysis and conclusion and policy recommendations

The research team presented the final draft of the report. In the introduction part, the study's main objectives, scope, and methodology of the study as well as a description of the standardization were highlighted. In addition, the background of the report and the pros and cons of standardization were explained in detail. In the second part, the trends, issues and challenges in standardization, particularly in OIC member countries, and developments in the Islamic finance sector were discussed.

Following the introductory presentations on the report, country cases were presented. While Dr. Ruslan NAGAYEV briefly presented the updated case study of Türkiye, which was also presented in the first meeting, the other OIC member country cases, namely Malaysia, Morocco, and Oman, were presented by Dr. Nagayev. Lastly, as the non-OIC country case study, the United Kingdom case, was presented by Dr. Mustafa DISLI.

The country case studies covered, with respect to each country, the economic structure and the role of the standardization, the trajectory of Islamic finance, best practices, and country-specific recommendations. The program was completed with the presentations of the representatives of the International Institutions, and Private Sector sharing their experiences, achievements, and challenges faced in improving/developing standardization efforts with Islamic finance.

Moreover, experiences of international institutions and private sector regarding standardization efforts was discussed during the Meeting. Finally, The Meeting deliberated on the

aforementioned theme and develop a set of policy recommendations to be submitted to the Honorable Ministers for their kind consideration during the Ministerial Session.

2. Opening Session

In line with the tradition of the Organization of Islamic Cooperation (OIC), the Meeting started with the recitation from the Holy Quran. At the outset, Mr. Selçuk KOÇ, Acting Director General of the COMCEC, welcomed all participants to 18th Meeting of the COMCEC Financial Cooperation Working Group (FCWG). Then, he made a comprehensive opening speech about the role and importance of issuing, improving and harmonizing standards for the sector by touching upon the latest data on the sector.

Firstly, Mr. KOÇ, stressed that Islamic finance can play a crucial role in the stabilization of the financial systems of the member countries and he added that it promotes risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare. Therefore, he underlined that Islamic finance can be utilized as an important tool to enhance our economies.

Next, he briefly summarized the latest development in the Islamic Finance sector. He emphasized that according to the Islamic Financial Services Stability Report (IFSB, 2021), the total asset size of the industry has increased to US\$2.70 trillion in 2021 and is anticipated to reach a valuation of \$3.02 billion by 2027 with a 10.2 percent growth rate despite the adverse effects of the COVID-19 pandemic all over the world.

Later, Mr. KOÇ, indicated that in the last two decades, there has been significant growth in the global Islamic Finance Services Industry (IFSI), so, the need for standardization has emerged. Additionally, the number of IFIs is growing across jurisdictions, and Islamic Finance instruments are becoming more sophisticated, which calls for standardization of the markets to enhance transparency and stability.

Moreover, he stressed that this theme is quite important since Standardization enhances the clarity of communication, guarantees the quality of processes, and minimizes the risks of critical information being omitted.

He ended his opening remarks by stating that enhancing the cooperation among the Member Countries in this field through sharing experiences and good practices would significantly contribute to the realization of related output areas of the COMCEC Strategy.

Then, as the Chairperson of the Meeting, Mr. Deniz YILMAZ, Deputy Director General from General Directorate of Financial Markets and Exchange of the Republic of Turkey, introduced himself, thanked all the participants, and mentioned the program of the meeting.

3. Overview of the Report

3.1.General Overview of the Report

The presentation session started with an introduction to the topic of the report by Dr. Ahmet Faruk AYSAN from Hamad bin Khalifa University (Qatar). He provided background information about the status of the Islamic finance industry globally and highlighted that, though the global Islamic financial services industry has been growing double-digit over the last decades, its share in the global mainstream financial system remains insignificant. Various factors contribute to the development of the industry, and the standardization of Islamic Finance

products, Shari‘ah governance, reporting, and dispute resolution is seen as a critical growth factor for its further growth. Though some standardization initiatives have been undertaken on local, regional, and global levels, there are certain areas where greater standardization and codification need to gain wider acceptance among regional and international market players. Dr. AYSAN also defined the key terms associated with standardization, discussed the pros and cons of standardization, outlined the scope of the study and research objectives, and briefly explained the methodology employed and criteria used for the selection of case countries (see *Table 1*).

Table 1: Case Country Selection Criteria

Criteria	Description	Approach
I	4 OIC member countries and 1 non-OIC country	COMCEC List
II	Geographic groups: African, Arab, Asian, and European	COMCEC List
III	Maturity of the IFSI	IFDI

Note: IFDI is the Islamic Finance Development Indicator provided by Thomson Reuters.

Table 2: List of Selected Case Countries

Country	Group	OIC	Legal System	IFDI Ranking
Malaysia	Asian	Yes	Mixed (<i>Shari‘ah</i> Law and English Common Law)	#1
Morocco	Arab	Yes	Mixed (<i>Shari‘ah</i> Law and French Civil Law)	#29
Türkiye	Asian	Yes	Civil Law	#15
Oman	Arab	Yes	Mixed (<i>Shari‘ah</i> Law and Anglo-Saxon Law)	#9
UK	European	No	English Common Law	#25

Note: IFDI stands for Islamic Finance Development Indicator provided by Thomson Reuters. The countries are ranked based on the year 2020 scores.

Dr. AYSAN outlined that this study aims to elaborate and analyze the recent initiatives and issues on the standardization in Islamic finance by covering key Islamic finance segments with a particular focus on developments at national and global levels in OIC member countries and reviewing the best practices and providing policy recommendations based on the findings of the study. It was also defined that the study focuses on standardization efforts in Islamic finance at local, regional, and international levels; the roles and initiatives of key international standard-setting institutions towards the Islamic financial sector; and a detailed analysis of

standardization efforts in selected five countries. He concluded that the expected gains to the Islamic finance industry from standardization include greater stability, transparency, cost efficiency, and Shari‘ah risk and systemic risk mitigation, which are critical for the cross-border competitiveness of Shari‘ah-compliant financial instruments and their attractiveness to international investors. Finally, he presented the list of experts and advisors who contributed to the project.

Afterward, Dr. Umar OSENI, the CEO of the International Islamic Liquidity Management Corporation (IILM), focused on the global trends, issues, and challenges facing Islamic finance in terms of standardization. He started with a discussion of the *Shari‘ah* perspective on standardization and highlighted the need to differentiate between *usul* (fundamental sources and principles) and *furu’* (legal rulings), and that flexibility is the hallmark of commercial transactions in Islamic law. Also, he explained the background information and roles of international Islamic standard-setting organizations such as AAOIFI, IFSB, and IIFM and compared their approaches to standardization (see *Table 3*).

Table 3: Comparison of Different Approaches of Three Standard-Setting Institutions

#	STAGES	AAOIFI	IFSB	IIFM
1.	Preliminaries	Work Plan or Agenda	Terms of Reference	Concept Paper
2.	Development	Preliminary Study	Issue Paper	Concept Paper finetuned by external legal counsel
3.	External Contributions	Consultation Note	Initial Study Report	Global Working Group
4.	Public Consultation	Exposure Draft	Exposure Draft issued	Legal Drafting and consultation
5.	Final Approval	Relevant Standards Board	Council	<i>Sharī‘ah</i> Board

Source: Authors

Furthermore, Dr. OSENI, highlighted that the lack of standardization across various jurisdictions still remains a key challenge, and though the efforts of international standard-setting organizations are commendable, there more needs to be done. Beyond the standardization of Shari‘ah rulings, other aspects should be considered, such as financial and accounting reporting, governance and prudential regulation, product structure and legal documentation, legislation, and tax policies. Finally, the key points for consideration were identified: (i) cross-border standardization should be prioritized; (ii) benchmarking is essential in efforts toward standardization within and beyond the Islamic finance industry; (iii) a one-size-fits-all approach may not be the best approach as various OIC member countries are at varying development level when it comes to Islamic finance; (iv) standardization should focus on fundamental rules and principles.

3.2. Selected Case Studies: Malaysia, Morocco, Oman, Türkiye, and the United Kingdom

Next, Dr. Said BOUHERAOUA, the Senior Researcher and Director of the Research Affairs Department at the International Shari'ah Research Academy for Islamic Finance (ISRA), and Dr. Adam (Ruslan) NAGAYEV from the Department of Islamic Economics and Finance at Istanbul Sabahattin Zaim University presented country case studies: Malaysia, Morocco, Oman, Türkiye, and the UK. They started with a brief introduction to the state of the domestic Islamic financial services industry (IFSI) in sample countries and described their legal and regulatory frameworks. Also, they provided the chronology of standardization efforts in these jurisdictions. The presenters underlined that expert interviews were administered with stakeholders of the IFSI representing regulatory bodies, academic institutions, Islamic financial institutions, and *Shari'ah* Board/Committees to collect the qualified data. Interview questions were divided into four categories: legal and regulatory frameworks, taxation issues, academic and technical issues, and relations with international standard-setting bodies.

Malaysia

Dr. Said BOUHERAOUA, the consultant, highlighted that Malaysia ranked 1st as the most developed Islamic Finance market and is a leading country in achieving a high level of standardization in Islamic Finance. He continued that the development of Malaysia's IFSI has gone through three major stages: the first stage covers the period from 1983 to 1993, during which the country has built the legal, regulatory, and *Shari'ah* foundations. The second stage spans from 1993 to 2001, during which the country harmonized Islamic finance with the conventional sector by addressing the discrepancies and ensuring a level-playing field for the IFSI. The last stage covers 2003 – the present, emphasizing the strategic positioning and international integration of Islamic Finance.

Next, he highlighted that Malaysia's IFSI is comprehensive, comprising three sectors: Islamic banking, *Takaful*, and Islamic Capital Market (ICM). He stated that, as of 2021, the size and share of these segments are 39.8%, 19.3%, and 65.4%, respectively.

Finally, based on the findings, the following policy recommendations were provided:

- 1) Continuously improving the legal, regulatory, and supervisory frameworks,
- 2) Increasing the effectiveness of the industry by introducing value-added vanilla products,
- 3) Increasing international cooperation and collaboration on standardization,
- 4) Ensuring cohesive acceptance and application of standards by the industry players,
- 5) Promoting standardization by encouraging innovation within the *Shari'ah* parameters,
- 6) Developing specialized international and domestic research centers for innovation and standardization,
- 7) Developing interdisciplinary training programs to foster competency and increase awareness of standardization.

Morocco

Next, Dr. Adam, the consultant, continued the presentation with Morocco. He pointed out that Morocco is one of the strongest economies in the African continent. According to the World Bank, as of 2020, the country's economy is the 5th largest in Africa by GDP (PPP). He stated that Morocco's economic system pursues an open approach toward the outside world and has been the subject of several reforms and recovery plans in order to enhance its development.

Also, he highlighted that the country ranks 29th globally according to the IFDI 2020. He indicated that the Moroccan Islamic banking landscape currently consists of 5 full-fledged participative banks and 4 participatory windows within conventional banks. Next, he underlined that Islamic banking total assets grew by 32 percent throughout 2021, amounting to US\$2.2 billion.

Finally, based on the findings, the following policy recommendations were provided:

- 1) Strengthening the communication and collaboration between international standard-setting organizations and national regulatory bodies,
- 2) Improving communication between the IFSI stakeholders to address the current issues and challenges facing the industry,
- 3) Promoting research and development among practitioners and researchers,
- 4) Ensuring equitable tax treatment and a level-playing field for the industry,
- 5) Raising public awareness and literacy about Islamic Finance.

Oman

His presentation continued with Oman. He noted that Oman is a growing market economy with an emerging IFSI ranking 9th in 2020, according to the Islamic Financial Development Indicator (IFDI) 2020. He added that one of the fastest-growing Islamic Finance markets, with an expected compound annual growth rate (CAGR) of 25 percent over 2020-2025. Next, he stated that the IFSI of Oman is projected to grow not only in terms of banking assets but also by the size of the capital market (*Şukūk* and mutual funds) and the *Takaful* sector. As for the growth of the banking sector by mid-2021, the total assets of IFIs exceeded 15 percent of the total banking assets, qualifying as a systemically important sector. Furthermore, he highlighted that Islamic banking was first introduced to Oman in 2013 by launching a full-fledged Islamic bank called Bank Nizwa.

In conclusion, the following recommendations were made in light of the findings:

- 1) Adopting the best practices and revising the existing legal, regulatory, and Sharī'ah governance frameworks by considering the recommendations and feedback from all IFSI stakeholders and embracing technological advancements and ESG requirements,
- 2) Increasing public awareness about Islamic Finance principles and applications,
- 3) Pursuing capacity building in the field of Islamic Finance via research centers, academic institutions, and other channels,
- 4) Establishing a platform for collaboration between scholars and industry players by exchanging views and collecting ideas,
- 5) Providing marketing support for Islamic Finance products,
- 6) Encourage more full-fledged/standalone Islamic banks.

Türkiye

Next, he presented the Turkish case study. He emphasized that, as of 2021, Türkiye is the world's 19th biggest economy, with nominal GDP of US\$815 billion. Türkiye ranks 15th globally according to the IFDI 2020. Afterward, he stressed that the Turkish participation (Islamic) banking industry marked a significant milestone in 2005 as the sector gained a solid legal framework creating a competitive with conventional banks environment. In this regard, standardization efforts by the industry will contribute to the further development of Islamic Finance. Türkiye is one of the G20 countries having the potential to elevate the standardization

issues in Islamic Finance to a global scale. He underlined that the country is now a significant player in the global IFSI, owing to the strong commitment of the government, regulators, and the Islamic banking industry. Later he added that among 53 banks operating in Türkiye, 6 are fully-fledged Islamic banks licensed by the Banking Regulation and Supervision Agency (BRSA). The market share of Turkish participation banks has grown from 2.4 percent in 2005 (US\$6.8 billion) to 7.7 percent (US\$50 billion) in 2021. Also, there are 12 institutions offering Takaful products and 78 Islamic funds.

Lastly, following the findings, the following policy recommendations were made:

- 1) Enhancing the communication and coordination among regulatory bodies and with international standard-setting organizations,
- 2) Passing a comprehensive Islamic Finance legislation that regulates the IFSI,
- 3) Establishing Islamic Finance departments within each regulatory body,
- 4) Pursuing talent development by bridging IFIs and academic institutions,
- 5) Tailoring Islamic Finance training programmes and workshops for regulators and industry players,
- 6) Introducing regulations and standards into the curriculum of universities,
- 7) Ensuring tax neutrality and providing incentives to attract foreign investors and talent,
- 8) Promoting the transparency of Shari'ah governance processes, especially fatwa issuance,
- 9) Inviting practitioners and academics into the process of standardization.

The UK

In his final case study presentation, Dr. Adam described the United Kingdom (UK) findings. He indicated that the UK ranks 25th in the global IFDI 2020 list. The history of Islamic Finance in the UK started in the 1980s when Murabaha was accepted as a mode of financing. The UK's IFSI has struggled to catch up with the centuries-old conventional financial system over the years. Yet, with its high position in the global list of countries that provide Islamic Finance services and products, the UK is the most established non-Muslim country, offering Islamic financial services at the national and international levels. Later he stated that the UK's financial sector is well ahead of many Muslim-majority countries and its banking and insurance financial sectors are among the most sophisticated, diversified, and significant sectors. There are 4 Islamic banks and 8 Islamic banking windows operating in the country, in addition to 10 Takaful operators and 86 Islamic funds.

Finally, based on the findings, the following policy recommendations were provided:

- 1) Increasing public awareness and promotion of Islamic Finance products,
- 2) Developing training programmes for employees of IFIs,
- 3) Creating a level playing field for all market participants by ensuring tax neutrality,
- 4) Developing *Shari'ah* governance framework to enhance operations and finances of IFIs,
- 5) Including provisions in law reflecting alternative insurance (Takaful) arrangements,
- 6) Pursuing collaboration with international Islamic standard-setting organizations.

4. Experiences/Perspectives of the Member States, International Institutions, and Private Sector

4.1. Experiences/Perspectives of the Member States

Türkiye (Participation Banks Association of Türkiye (TKBB))

Mrs. Fatma Çınar, Advisor at Participation Banks Association of Türkiye (TKBB) delivered a presentation on the Advisory Board of TKBB. Ms. ÇINAR began with a comparison of the situation of the Shariah Governance Ecosystem Before the Advisory Board of TKBB. She noted that before the establishment of Advisory Board, each participation bank has its own individual sharia board and the decisions of these boards were only binding to their own institution. She added that there was no unity in application of the standards due to the multi-sharia board decisions and it was causing confusion amongst the customers. Then, she highlighted that the Board which is referred as the Sharia Board of TKBB is established in May 2018 as a necessity for the Participation Banking sector. And she described the position of the TKBB Advisory Board in the Current Shariah Governance Ecosystem of Türkiye.

She gave detailed information on the process of formation of the Advisory Board of TKBB. Afterwards, she added that the Board is an independent board established under the umbrella of the association and the central advisory board in Türkiye. She stressed that the decisions and standards of the Board have a binding nature for participation banks. Then she mentioned that although the minimum meeting frequency of the Board is one month, usually it meets every week.

Also, she continued her presentation with the duties of the Advisory Board. She noted that Board determines the professional principles and standards for participation banks to follow. When deemed necessary, the Board takes general decisions to eliminate the practice differences among participation banks. Upon application, the Board provides opinions on interest-free financing activities to public institutions and organizations, public professional organizations, and other organizations. It also organizes programs and prepares publications to train and publicize the professional principles and standards of participation in banking and attend in the programs organized for this purpose. She ended the duties of the Advisory Board by underlying that it fulfills the duties assigned to it under its own responsibility, impartially, and independently.

She continued her presentation with the Standard Development Process of the Advisory Board. She described each step from determining the subject of the standard to the publication of the standard on the website.

Then, Mrs. Çınar explained the process of decision-making of the Advisory Board. She noted that applications regarding the issues requested to be discussed in the Advisory Board are made to the Association examines the applications and may decide to return the applications that do not fall within the scope of the duties assigned to the Advisory Board or that may lead to a decision contrary to the current legislation. She pointed out that the Advisory Board may also include in its agenda the issues it wishes to discuss. Specialist personnel performs the research and examination activities, the preparation of the study reports, and other such duties required by the Advisory Board regarding the decision requests to be negotiated. She added that according to the agenda item of the meeting, representatives of a relevant institution or experts in their fields can attend the Advisory Board meetings in which the decision session is confidential, and the decision is taken unanimously or by majority vote.

Furthermore, she emphasized that decisions are written with their Sharia bases and in the decisions, there is a summary of the subject examined and discussed, the text of the decision, and the sharia basis of it by underlying that the members that dissent writes a dissenting opinion. Lastly, she noted that the Board currently has 54 decisions 14 of which have been published on the website.

Following the summary on the Advisory Board, Mrs. Çınar introduced activities of the Association by highlighting the TKBB collaborations and publications. The presentation was completed explanation of the local and international training activities and programs of the association.

4.2. Experiences/Perspectives of the International Institutions

International Financial Services Board (IFSB)

Ms. A. Amany AHMED, Head of Standards Development at IFSB, delivered a presentation on “Presentation on the Standards-Development work of the IFSB”.

She started her presentation by introducing what IFSB is. She indicated that The Islamic Financial Services Board (IFSB) is an international standard-setting organisation that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry. It also conducts research and coordinates initiatives on industry-related issues, as well as organizes roundtables, seminars, and conferences for regulators and industry stakeholders.

Then she explained that there are main objectives of IFSB such as ensuring regulatory frameworks adequately address the specificities and unique features related to Islamic finance, filling crucial gaps for the Islamic finance industry, and complementing and fitting the existing international regulatory frameworks for the financial services industry.

She indicated that the key objectives of IFSB are developing standards for the regulation of IFSI, producing quality research, establishing cooperation with international standard-setting bodies and member countries, and providing guidance on effective supervision and regulation.

Next, she underlined that number of IFSB members has raised from 9 in 2003 to 187 members as of December 2021. She mentioned that it was published 2 standards regarding cross-sector, 5 standards regarding ICM, 7 standards regarding Takaful, and 23 standards for banking.

Finally, she completed her presentation on the expression process of the standards development, which is a process composed of 18 phases.

4.3. Experiences/Perspectives of the Private Sector

Albaraka Türk’s Experiences on the Standardization Efforts in Islamic Finance

Mr. Dr. Ömer Emeç, Chief Economist at Albaraka Türk Participation Bank, delivered a presentation that consists of 3 parts on standardization in Islamic finance from a perspective of participation bank. Dr. Emeç began by presenting Albaraka Banking Group (ABG) and Albaraka Türk which is established in 1984 as the first participation bank in Türkiye. Then, he mentioned that ABG provides service across 3 continents and 16 countries. Besides being a part of ABG, Albaraka Türk has 226 branches and asset size of 131,7 billion TL as of June 2022.

Mr. Emeç also mentioned the institution's intention is to be the pioneer in the sector in terms of the innovation ecosystem.

Moving to the second part of the presentation, he described standardization in the Islamic finance sector and explained how standardization affects the Islamic finance industry. Afterward, he evaluated the need for global standards, especially in Islamic finance. He expressed that in order to improve transparency and foster the credibility of Islamic finance institutions, the implication of standards is important to broaden the appeal of Islamic finance across jurisdiction.

Later, he focused on standardization at the banking scale and stated that standards, compliance, governance, and regulation issues are directly affecting the global Islamic banking industry. Islamic financial institutions try to strengthen shariah governance since this issue is one of the most crucial infrastructural parties.

Next, he briefly explained ways to strengthen shariah governance in purpose of enhancing the Islamic finance industry. Then, he showcased some macro and micro challenges and provided some basic solutions for them.

As for the last part of the presentation, Dr. Emeç highlighted Albaraka Türk's shariah governance implementations that shows the institution's sensitivity about standardization. He pointed out that global standardization is a challenging concept. Thus, it needs to be evaluated with local standardization since different financial market structures and societies need local evaluation and implementation of standards.

Lastly, he outlined that standardization in Islamic finance is necessary and it should be in harmony with local standardization studies, too. He noted that Islamic banks and financial institutions must be pioneers on ambiguous areas.

5. Policy Debate Session

Under this agenda item, the participants deliberated on the policy options to facilitate Standardization Efforts conducted in the OIC Member Countries. Mr. Deniz YILMAZ moderated the roundtable session. After fruitful discussion and deliberations, the Working Group has come up with the following policy recommendations to be submitted to the 38th Ministerial Session of the COMCEC for consideration.

Finally, Dr. AYSAN concluded the presentation session by listing the following six policy pillars/advice:

Policy Recommendation I: Developing a comprehensive strategic master plan that clearly defines the standardization and harmonization requirements (at global and local levels).

Policy Recommendation II: Establishing a centralized Sharī'ah governance framework to ensure the compliance of the Islamic Financial Services Industry with standards on Sharī'ah products, dispute resolution, and reporting.

Policy Recommendation III: Ensuring periodical review of the standards so that they reflect current market dynamics and needs.

Policy Recommendation IV: Enhancing the legal, regulatory, and supervisory frameworks to create a level-playing field for all market participants.

Policy Recommendation V: Enhancing the coordination among regulatory bodies and with international standard-setting bodies.

Policy Recommendation VI: Developing quality human capital by including standardization-related modules in the higher education curriculum/syllabus, conducting training and seminars, and introducing accreditation of Islamic Finance academic programmes.

(Policy Recommendations and their rationale are attached as Annex IV)

6. COMCEC Financial Support Programs

Ms. Eda AKÇA, Program Coordinator at the COMCEC Coordination Office, made a presentation on the COMCEC Project Funding.

Ms. AKÇA informed the participants about main characteristic of the COMCEC Project Funding and novelties on this funding mechanism. Ms. AKÇA started her presentation by explaining objectives of COMCEC Project Funding. Then, she explained project cycle, major actors and their roles in this funding mechanism. She stressed the importance of finding a project idea and informed the participants on how they can find project topics. Ms. AKÇA continued her presentation with novelties in COMCEC Project Funding. She highlighted the new two projects types which will be supported by COMCEC and informed the participants about opportunity to implement project individually in next implementation period. She also explained the main selection criteria for being an applicant for a project.

She also reminded the participants to read the application documents particularly the Project Preparation and Submission Guidelines as well as supported sectoral themes before designing and submitting their project proposal. Moreover, she informed the participants about online project submission and highlighted the critical steps for this process.

Finally, Ms. AKÇA invited the Member Countries and OIC Institutions to submit their project proposals and wished all the success in the project submission period.

7. Closing Remarks

In his closing remarks, Mr. Selçuk KOÇ, Acting Director General at CCO, underlined the importance of fruitful discussion regarding Standardization Efforts between OIC Member countries. Mr. KOÇ also stressed that outcomes of this meeting will be submitted to the Thirty-Eighth (38th) COMCEC Session to be held in November 2022.

He ended his closing remarks by expressing his sincere thanks to participants of the Member Countries for their active involvement in and contributions to the discussions and deliberations. He also conveyed his thanks to the representatives of international and OIC Institutions for their valuable contributions and COMCEC Coordination Office for the excellent preparations made for the meeting.

8. ANNEXES

Annex-I



18th MEETING

COMCEC FINANCIAL COOPERATION WORKING GROUP

(October 3th, 2022, Virtual Meeting)

“Standardization Efforts in Islamic Finance”

(2nd Meeting – Final Draft of Research Report and Policy Recommendations)

AGENDA

Opening

1. Presentation of Final Draft of the Report
2. Lessons Learnt from the Selected Case Countries and the Policy Options
3. Experiences/Perspectives of the Member States, International Institutions, and Private Sector
4. Policy Debate Session on the Standardization Efforts in Islamic Finance
5. COMCEC Financial Support Programs

Closing



PROGRAMME

**18th MEETING OF THE COMCEC
FINANCIAL COOPERATION WORKING GROUP
(October 3th, 2022, Virtual Meeting)**

“Standardization Efforts in Islamic Finance”

(2nd Session- Discussion and Review of the Final Draft of Research Report)

13.15 - 13.30 Joining the Online Meeting

(The link for the participation will be conveyed in advance of the Meeting)

13.30 - 13.40 Opening

13.40 - 14.50 Presentation of the Final Draft of the Research Report

13.40- 14.00 - Presentation on General Overview of the Report

Prof. Dr. Ahmet Faruk AYSAN and Dr. Umar OSENI

Consultants, COMCEC Coordination Office

14.00-14.30 - *Presentation on Selected Case Countries*

Dr. Ruslan (Adam) NAGAYEV and Assoc. Prof. Dr. Said BOUHERAOUA
Consultants, COMCEC Coordination Office

14.30-14.40 - *Presentation on Survey results and Conclusions and Policy Recommendations*

Dr. Mustafa DISLI and Prof. Dr. Ahmet Faruk AYSAN
Consultants, COMCEC Coordination Office

14.40-14.50 - *Questions and Answers (Q & A)*

14:50 – 15:30 Experiences/Perspectives of the Member States, International Institutions, and Private Sector

14.50-15.00 - *Presentations by Member Countries (tbc)*

Ms. Fatma ÇINAR
Advisor
Participation Banks Association of Türkiye (TKBB)

15.00-15.10 - *Presentations by Islamic Financial Services Board (IFSB)*

Ms. A. Amany Ahmed
Member of the Secretariat
Technical and Research Department
IFSB

15.10-15.20 - *Presentation by Albaraka Turk Participation Bank*

Mr. Dr. Ömer EMEÇ
Chief Economist

15.20-15.30 - *(Q & A)*

15.30 – 16.00 Moderated Policy Debate Session on Standardization Efforts in Islamic Finance

15.30-15.35 -Presentation by COMCEC Coordination Office

Ms. Seyyide Ravza ÖZER

Expert

15.35-16.00 -Moderation by Mr. Deniz YILMAZ

Deputy Director General

General Directorate of Financial Markets and Exchange

16:00 – 16:20 COMCEC Financial Support Programs

16.00-16.15 -Presentation by COMCEC Coordination Office

Ms. Eda AKÇA

Expert

16.15-16.20 - (Q & A)

16:20 – 16:30 Closing Remarks

LIST OF PARTICIPANTS

**18TH MEETING OF THE FINANCIAL COOPERATION WORKING GROUP
(OCTOBER 3, 2022, ONLINE)**

A.MEMBER COUNTRIES OF THE OIC

ISLAMIC REPUBLIC OF AFGHANISTAN

-Mr. ALÌ AHMAD SAADAT

Director General Regional Cooperation and Provincial Affairs Coordination, Ministry of
Economy

-Mr. MOHAMMAD KHALID ZAHİN

Head of Aid Coordination, Ministry of Finance

KINGDOM OF BAHRAIN

-Mr. ABDULLA EBRAHİM ALKHALİFA

Chief, International Relations & Organizations, Ministry of Finance & National Economy

BRUNEI DARUSSALAM

-Mr. ZULKHAIRI NOOR

Senior manager, Brunei Darussalam Central Bank (BDCB), Brunei

ARAB REPUBLIC OF EGYPT

-Mr. RANĪA NABİL

Head of Division, Ministry of Trade

ISLAMIC REPUBLIC OF IRAN

-Mr. HAJAR ASGHARĪ

Project Manager, Central Bank of Iran

-Ms. HAJAR ASGHARĪ

Head of Project, Finance Department, Central Bank of Iran

-Ms. NASRĪN GHASSEMĪMOGHADAM

Expert, OIETAI- Ministry of Economic Affairs and Finance

REPUBLIC OF IRAQ

-Mr. SUHAĪB ESSA

Chief Supervisor, Central Bank of Iraq

-Ms. ABEER ALHUMAĪRĪ

Director General, Ministry of Finance

THE STATE OF KUWAIT

-Ms. ASMA ALHADBAH

External Relations Researcher, Ministry of Finance

MALAYSIA

-Dr. SUHAIMI MOHDYUSOF

Shariah Specialist, Bank Negara Malaysia

-Mr. AHMAD KHAĪRUDDĪN

Covering Manager, Bank Negara Malaysia

-Mr. KĪAN SIEN PUA

Principal Assistant Secretary, Ministry of Finance

-Ms. NUWAĪRANĪ KHALĪD

Head of Section, Ministry of Finance

REPUBLIC OF NIGER

-Mr. GAMBO GANA MADOU

Focal Point of Financial Cooperation Working Group, Ministry Of Finance

SULTANATE OF OMAN

-Ms. SALMA ALRIYAMI ALRIYAMI

Economic Researcher, Ministry of Finance

KINGDOM OF SAUDI ARABIA

-Mr. ABOZER MOHAMED

Senior Islamic finance specialist, Islamic Development Bank IsDB

-Mr. MSHARY ALSHEEHA

Senior Economist, Ministry of Finance Saudi Arabia

-Ms. MUNIRAH ALGHEDIAN

Senior Economist, Ministry of Finance

-Mr. WAEL MERZA

Islamic Finance Consultant, Saudi Central Bank

REPUBLIC OF SIERRA LEONE

-Mr. VANDY KAMARA

Project Coordinator, Ministry of Finance - COMCEC Project

REPUBLIC OF SURINAME

-Ms. ANUSKA RAMDHANI

Senior Sector Coordinator, Ministry of Finance and Planning

-Ms. MONICA KRAMAWITANA

Treasury, Ministry of Finance and Planning

REPUBLIC OF TOGO

-Mr. ABETE KİBALOU

Research Officer, Ministry of Economy and Finance

REPUBLIC OF TUNISIA

-Mr. BECHIR GHARBI

Deputy Director, Ministry of Finance

-Mr. MOHAMED DALDOUL

Head of Service, Ministry Of Trade and Exports Development

TÜRKİYE CUMHURİYETİ

-Mr. AHMET CAN

Director, Bereket Sigorta A.Ş.

-Mr. ALİ İZZEDDİN ÇELEBİ

Assistant Specialist, Central Bank of Türkiye

-Mr. DENİZ YILMAZ

Deputy Director General, Republic of Turkey Ministry of Treasury and Finance

-Mr. HANİFİ KORUĞLU

Senior Expert, Capital Markets Board

-Mr. İBRAHİM KÜÇÜKİKİZ

Specialist, OIC-COMCEC Central Banks Forum

-Mr. KASIM SAİP YÜCESOY

Expert, Public Oversight, Accounting and Auditing Standards Authority

-Mr. MAHMUT AYDOĞMUS

Director of International Relations, Borsa İstanbul

-Mr. MAHMUT VARLI

Manager, Borsa İstanbul (OICEF)

-Mr. MÜCAHİT DUMAN

Head of Department, Republic of Turkey Ministry of Treasury and Financial

-Mr. MUHTESEM KARBAS

Expert, Borsa İstanbul

-Mr. SELAMİ ERBAS

Senior Expert, Capital Markets Board

-Mr. SELAMİ KARABULUT

Expert, Public Oversight, Accounting and Auditing Standards Authority

-Ms. EMİNE HARMANKAYA

Assistant Specialist, OIC-COMCEC Central Banks Forum

-Ms. FATMA ÇINAR

Advisor, International Relations, TKBB

-Ms. GÖNÜL ÖZTÜRK

Expert, Ministry of Treasury and Finance

-Ms. NİNJİN ALTANGEREL

Assistant Specialist, Borsa İstanbul

-Ms. ZÜLFÜYE ATAY

Senior Expert, Capital Markets Board

B.THE OIC GENERAL SECRETARIAT

OIC

-Mr. MOHAMMED ELİAS

Professional Officer, OIC

-Mr. TARABZOUNİ ALBARAA

Professional Officer, OIC

C.THE OIC SUBSIDIARY ORGANS

STATISTICAL, ECONOMIC, SOCIAL RESEARCH AND TRAINING CENTER FOR ISLAMIC COUNTRIES (SESRIC)

-Mr. ABDULHAMİT ÖZTÜRK

Researcher, SESRIC

-Mr. MUZAMIL EDEMA

Research Assistant, Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC)

-Ms. SEMİHA ABDULLAHINAN

Assistant Technical Cooperation Officer, SESRIC

GENERAL COUNCIL FOR ISLAMIC BANKS AND FINANCIAL INSTITUTIONS (CIBAFI)

-Mr. RACHİD ETTAAİ

Business Development Manager, CIBAFI

ISLAMIC CORPORATION FOR DEVELOPMENT OF THE PRIVATE SECTOR

-Mr. HASAN HİLMİ SAMANCIÖGLU

Strategy Senior Associate, ICD

D.AFFILIATED ORGANS OF THE OIC

STANDARDS AND METROLOGY INSTITUTE FOR ISLAMIC COUNTRIES (SMIIC)

-Ms. EMEL GÖNÇ

Assistant Expert, SMIIC

E. INTERNATIONAL INSTITUTIONS

THE ACCOUNTING AND AUDITING ORGANIZATION FOR ISLAMIC FINANCIAL INSTITUTIONS (AAOIFI)

-Dr. RIZWAM MALIK

Head, AAOIFI

F. COMCEC COORDINATION OFFICE

- Mr. SELÇUK KOÇ

Deputy Director General

- Mr. CAN AYGÜL

Head of Department

- Mr. M. CELALETTİN AKTAŞ

Head of Department

- Mr. MEHMET ASLAN

Head of Department

- Ms. SEYYİDE RAVZA ÇOKSÖYLER

Assistant Expert

**POLICY RECOMMENDATIONS OF THE 18th MEETING OF THE COMCEC
FINANCIAL COOPERATION WORKING GROUP**

There was a moderation session under agenda item 4 titled “*Islamic Finance Standardization Efforts*”. This room document was prepared to enrich the discussions during the said session to come up with concrete policy recommendations for policy approximation among the Member Countries. It was drafted in accordance with the main findings of the research report conducted for this meeting and the answers of the Member Countries to the policy questions which have already been sent by the COMCEC Coordination Office.

POLICY ADVICE 1: *Developing a comprehensive strategic master plan that clearly defines the standardization and harmonization requirements (at global and local levels).*

Rationale / Explanation:

The success of the Islamic Financial Services Industry (IFSI) depends on the development of a comprehensive master plan with a clear strategic direction reflected in the blueprints, strategies, and policies of government agencies and self-regulatory organizations representing the industry stakeholders. Upon institutionalizing standardization, the policies, directives, and guidelines will be geared toward achieving this strategic objective.

POLICY ADVICE 2: *Establishing a centralized Sharī‘ah governance framework to ensure the compliance of the Islamic Financial Services Industry with standards on Sharī‘ah products, dispute resolution, and reporting.*

Rationale / Explanation:

A two-tier *Sharī‘ah* governance framework would enhance the public trust in the Islamic finance ecosystem through proper checks and balances by ensuring the consistency and uniformity of industry practices and compliance of market operations with the tenets of the *Sharī‘ah*. While the institution-level *Sharī‘ah* boards are responsible for monitoring routine business operations, the role of the jurisdiction-level Central *Sharī‘ah* Board is to issue general and broad *Sharī‘ah* (principle-based) rulings and review the new Islamic Finance contracts and products. The Central *Sharī‘ah* Board would serve the interests of all stakeholders by ensuring that the Islamic financial institutions (IFIs) duly implement the *Sharī‘ah* standards, regulations, and resolutions. Also, the Central *Sharī‘ah* Board would assist in dispute resolution by providing clarification and proper *Sharī‘ah* interpretation of any controversial issues relating to Islamic commercial law brought before a court or arbitral tribunal.

POLICY ADVICE 3: *Ensuring periodical review of the standards so that they reflect current market dynamics and needs.*

Rationale / Explanation:

In order to ensure that markets are dynamic, efficient, competitive, and innovative, the standardization process should not be rigid. Periodic revision of standards reflecting the industry's demands would benefit all the stakeholders, which could be achieved by introducing a special platform (meetings, periodicals, etc.) for discussion of related issues.

POLICY ADVICE 4: *Enhancing the legal, regulatory, and supervisory frameworks to create a level-playing field for all market participants.*

Rationale / Explanation:

There is a need to create a level playing field for all market participants to ensure tax neutrality so that Islamic financial transactions are not taxed differently from conventional transactions. Also, the simplification of Islamic Finance-related legal documentation and harmonization of legal, regulatory, and supervisory frameworks will make standardization more effective.

POLICY ADVICE 5: *Enhancing the coordination among regulatory bodies and with international standard-setting bodies.*

Rationale / Explanation:

An effective system of cooperation among supervisory agencies should be established to coordinate the development of standards and ensure their compliance and enforcement. Developing constructive communication between international Islamic standard-setting bodies (such as AAOIFI, IFSB, and IIFM and any other relevant standard-setting body that may be set up in the future for the purpose of standardization of products and practices in Islamic finance) and national regulators and continuously improving it will ensure smooth adaptation and adoption of international standards to the national ecosystem. Moreover, the adequate representation of the member countries in the international standard-setting bodies would be a pre-condition for factoring in the country-specific guidelines for adapting a specific standard.

The establishment of national and international research and working committees dedicated to international harmonization and standardization can assist in reducing divergence and achieving greater connectivity by bridging the gap between local and international industry players.

The OIC could provide a platform for collaboration, coordination, and discussion of Islamic finance standardization- and harmonization-related activities and offer financial and technical assistance in this direction. This platform would also help design strategic master plans for the development of the IFSI with embedded standardization/harmonization, offering training and policy dialogue programs for regulators. Also, it could play an important role in dispute resolution for cross-border

IFSI-related issues, particularly under the auspices of the newly established OIC Arbitration Centre located in Istanbul.¹

POLICY ADVICE 6: *Developing quality human capital by including standardization-related modules in the higher education curriculum/syllabus, conducting training and seminars, and introducing accreditation of Islamic Finance academic programmes.*

Rationale / Explanation:

The success of standardization in Islamic finance relies heavily on human capital development, which is why experts in Islamic finance, such as *Sharī'ah* scholars, lawyers, and regulators, should be given priority in expanding their knowledge capacity. The minimum qualification requirements should be set for the members of the *Sharī'ah* Advisory Boards, who are also required to attend the continuous professional development modules with a particular focus on standardization-related areas. Also, introducing an international academic accreditation agency for “licensing” the Islamic finance academic programs worldwide will serve the industry's standardization needs as well as ensure that Islamic finance graduates have the knowledge, skills, and attributes required for the field.

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 a call 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. To realize the above-mentioned policy recommendations, the member countries can utilize the COMCEC Project Funding facility. These projects may include the organization of seminars, training programs, study visits, exchange of experts, workshops and preparation of analytical studies, needs assessments and training materials/documents, etc.

¹ For details, please refer to: <https://www.mondaq.com/turkey/arbitration-dispute-resolution/897458/organization-of-islamic-cooperation-arbitration-center-established-in-istanbul>