



Studying the Feasibility of an Islamic Securities Exchange

Task Force Report

**OIC Member States' Stock Exchanges Forum
3rd Meeting**

Istanbul

24-25 October, 2009



Task Force Members

Participants

- **Tehran Stock Exchange (coordinator)**
- Bursa Malaysia
- Dhaka Stock Exchange
- Dubai Financial Market
- Istanbul Stock Exchange
- Lahore Stock Exchange
- Muscat Securities Market



History of Efforts for Enhancing Cooperation Among the OIC Markets

- ✓ **1974:** The idea of promoting investments among the OIC member countries in the fifth Islamic Conference of Foreign Ministers (ICFM).
- ✓ **2005:** Pertinent recommendations to promote cooperation among the stock exchanges of the OIC member countries made in a meeting held in Istanbul.
- ✓ **2008:** In the second meeting of the OIC member states' stock exchanges forum, Tehran Stock Exchange presented the proposal of establishing an Islamic stock exchange.
 - ✓ “Task Force for Studying the Feasibility of an Islamic Securities Exchange” was formed at the OIC Member States Exchanges Forum held in Istanbul, on October 18-19th, 2008.



History of Efforts for Enhancing Cooperation Among the OIC Markets

- ✓ **2009:** “The Working Committee First Meeting of the OIC Member States’ Stock Exchanges Forum” was held in Tehran, May 5-6th, 2009.
 - ✓ The suggestion of establishing e-links between member exchanges was conceived as prominent.
 - ✓ Visiting Bursa Malaysia for getting detailed information on ASEAN Link -which is a recent initiative on e-links- was agreed upon.
 - ✓ The visit was realized on August, 2009
 - ✓ Although it has not gone alive yet, ASEAN Link is a simple structure built on minimum number of conditions and does not necessitate harmonization



Various Proposed Methods for Improving Cooperation Among OIC Stock Exchanges

- A) Islamic Securities Exchange
- B) Common indexes
- C) Cross membership
- D) Cross listing
- E) Trading Islamic ETFs and DRs
- F) Electronic linkage network between exchanges- was selected in the first working committee meeting of OIC member states' stock exchanges forum in Tehran**



Alternatives of cooperation for OIC stock exchanges

- ✓ The establishment of a close type of cooperation such as “common trading platforms” between OIC stock exchanges requires detailed harmonization and is difficult to be realized in the short term due to the differences in regulatory issues.
- ✓ On the other hand, in long term perspective, we believe it is beneficial to consider the alternative road maps for cooperation among OIC stock exchanges
- ✓ Therefore, we examine the feasibility of an “electronic linkage network” among stock exchanges, which is a relatively flexible type of common trading venues, assuming the prerequisites for such an integration are met.



OIC Link: A Feasible Cooperation Alternative

Define: OIC Link

- Electronic linkages (e-links) between exchanges
- Not a separate trading platform
 - Stocks will continue to be traded on the home exchanges where they are listed
- Provides direct market access to the home exchange for foreign brokerage houses
 - No cross-membership is required



OIC Link: Why feasible?

- The local brokerage house will be able to send its orders through the e-link, without being member of the foreign exchange.
- Local legislations and regulations will be effective.
 - Trades will be subject to the home exchange rules
- By OIC link, cross border order of an equity listed on stock exchange “X” will be executed on stock exchange “X”. As the stocks are not available for trade on a different platform other than the home exchange, there is no risk of decreased liquidity in the home exchange/market.
- Local brokerage house signs a bilateral agreement with a foreign brokerage house which is a member of the foreign exchange in which the trade is executed. Local brokerage house executes clearing&settlement of all its trades in that exchange through that bilaterally agreed brokerage house.
 - For the home clearing and settlement house, the counterparty will be the local broker.



OIC Link: Why to engage?

- Emerging markets to lead the recovery
- An attractive trading initiative for both regional and global investors
 - common indices, ETFs, Islamic financial products, etc.
 - increasing trend in IPOs along with the economic recovery
- An alternative trading initiative for the investors who would like to be involved in Islamic finance
- Will pave the way to cover other financial products such as Islamic financial bonds (i.e. sukuk)



OIC Link: Why to engage?

- Global trends in the exchange industry necessitate regional partnerships
 - Rise of alternative trading platforms and increased competition
 - Stock exchanges becoming more for-profit organisations
 - Rise of cooperation and consolidation between stock exchanges
 - Technology, the main determinant in competition, requires large-scale investment difficult to be afforded by small exchanges
 - Removal of national barriers in stock trading
 - Algorithmic trading and electronic platforms grow up



OIC Link: Main Points

Establishment of e-links between exchanges

Integration is not realized through a “common trading platform” but rather through e-links which admit access to member exchanges

- Instead of creating a new trading platform where the stocks are traded separately from their home exchanges, current exchanges will be linked to each other bilaterally through electronic linkages.
- Local brokerage houses will track the other exchanges via a single board/screen and trade directly in those exchanges through e-links, with the same ease as trading in their local exchanges.
- Currently effective licensing, trading and settlement mechanisms will continue to be in force.
- It does not mandate full harmonization of regulations and market rules.
- Regulatory authorities and exchanges keep their power and status.



OIC Link: stocks to be accessed through e-links

- Blue-chip stocks of member exchanges (ISE 30, FSM 30 etc.)
 - “Catchy” name for the list (e.g. “OIC Link”, “OIC blue-chips market”)
- All quotations to be tracked on a single screen and available on data vendors, preferably real-time
- international presence
- paves the way to create indices and products based on the list



IOC Link: how to invest in the IOC blue-chips market?

- investor sends order to a local brokerage house,
- local brokerage house routes the order to the “host” exchange through the “e-link”.
- investor tracks the quotations through a data vendor



IOC Link: clearing and settlement

Local brokerage house signs an agreement with a foreign brokerage house which is a member of the foreign exchange in which the trade is executed.

Local brokerage house executes clearing and settlement of all its trades in that exchange through that bilaterally agreed brokerage house.



OIC Link: Schedule

- sources of funds to be determined
- workshops to be held with the participation of member exchanges, depository houses, regulatory authorities, central banks, ministries of treasury and finance
- cooperation model to be made definite
 - professional advisory service may contribute to the process
- a MoU to be signed between the member exchanges
- provision of technical infrastructure
- publicity/promotion of the “OIC Link”
 - A proper marketing and promotion strategy for globally introducing OIC Link
 - Some international marketing consultants may be invited



OIC Link: Sources of funding

- Member exchanges
- Multilateral institutions (i.e. Islamic Development Bank)
- Settlement and depository houses
- Brokerage houses and (public/private) banks



Conclusion

- Global competition mandates cooperation between stock exchanges.
- Cooperation between the member exchanges has been on the agenda of OIC for a long time.
- The case of “ASEAN Gateway” shows us that we can achieve our goal, provided that the will and efficient participation of all capital market actors are in force.



Conclusion -II

- Electronic links can first be established between the relatively developed exchanges, and then can be expanded by the participation of the other OIC members.
- Islamic Development Bank can participate in the funding of the project.
 - Professional advisory service may add value



OIC Link: Roadmap

Stage 1: Decision

October 2008: Establishment of the Task Force for Studying the Feasibility of an Islamic Securities Exchange ✓

May 2009: Evaluation of ASEAN Link at the Working Committee Meeting in Tehran ✓

August 2009: Visit to Malaysia ✓

October 2009: Going beyond the Task Force: Discussion at OIC level, measuring the tendency and willingness of members, exploring the bilateral opportunities

Stage 2: Approval and support

Involvement of regulatory authorities and governmental bodies

Stage 3: Execution

Accessing to Islamic Development Bank and gain financial/technical support

Handling detailed feasibility analysis

Conducting workshops including all parties (exchanges, governmental bodies, advisors, brokerage houses)

Effectively managing of the project



Thanks for your attention