

THIRD MEETING OF THE OIC MEMBER STATES' STOCK EXCHANGES FORUM

DRAFT REPORT OF THE
THIRD WORKING COMMITTEE MEETING
OF THE OIC MEMBER STATES' STOCK EXCHANGES FORUM

ABU DHABI, APRIL 27-28, 2010

Beach Rotana Hotel
Abu Dhabi, April 2010

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OF THE
THIRD WORKING COMMITTEE MEETING OF THE
OIC MEMBER STATES' STOCK EXCHANGES FORUM
(Abu Dhabi, April 27-28, 2010)

1. The Third Working Committee Meeting of the OIC Member States' Stock Exchanges Forum convened in Abu Dhabi on April 27-28, 2010.
2. The Meeting was attended by the representatives of the following stock exchanges, central depositories, central registry institutions of the OIC Member States and the other relevant organizations:

A. STOCK EXCHANGES OF THE OIC MEMBER STATES

1. Abu-Dhabi Securities Exchange, United Arab Emirates
2. Amman Stock Exchange, Jordan
3. Bursa Malaysia Berhad, Malaysia
4. Chittagong Stock Exchange, Bangladesh
5. Dhaka Stock Exchange, Bangladesh
6. Dubai Financial Market, United Arab Emirates
7. Istanbul Stock Exchange, Turkey
8. Muscat Securities Market, Oman
9. Saudi Arabian Stock Exchange (Tadawul), Saudi Arabia
10. Tehran Stock Exchange, Iran

**B. CENTRAL DEPOSITORIES, CLEARING AND REGISTRY INSTITUTIONS
OF THE OIC MEMBER STATES**

- Central Registry Agency of Turkey, Turkey
- Central Securities Depository of Iran, Iran
- ISE Settlement and Custody Bank (Takasbank), Turkey
- MISR Central Clearing, Depository and Registry for Egypt

C. OTHER ORGANIZATIONS

1. International Islamic Financial Market (IIFM)
2. Dar Al Sharia Legal & Financial Consultancy LLC
3. FTSE
4. MSCI Barra
5. STANDARD AND POOR'S

Opening Session

1. Following recitation from the Holy Koran, the meeting was opened by Mr. Hüseyin Erkan, Chairman and CEO of the Istanbul Stock Exchange. Mr. Erkan welcomed all the delegates to Abu Dhabi on the occasion of the third working committee meeting of the OIC Member States' Stock Exchanges Forum. Mr. Erkan started his speech by summarizing what the OIC does far and the Forum's mission. He reminded the participants that the Organization of Islamic Conference (OIC) has 54 Muslim countries as members and is supported and organized by the governments of all the Muslim countries around the world. He added that the OIC works on a number of issues, namely business, social and cooperation issues and has various subcommittees. He expressed that COMCEC is one of the major subcommittees of the OIC, concentrating on the commercial, business and economic development issues and is headed by the President of Turkish Republic. Mr. Erkan went on to say that, many years ago, all attending countries of COMCEC had agreed on building cooperation among the stock exchanges. Following the deliberations, the mandate was given to stock exchanges and the Istanbul Stock Exchange volunteered to organize the cooperation efforts and since then, three annual and three working committee meetings had been held.

Mr. Erkan noted that one of the major areas that the Forum concentrates on is to create some instruments, some securities that are tradable on stock exchanges. He remarked that Islamic finance is growing very fast and in consideration of the cooperation efforts of all Islamic financial institutions, many instruments and various vehicles had been developed to finance trade and various projects, while most of these instruments are to be traded on the OTC, are not liquid, are not tradable on exchanges and are executed on bilateral basis, contrary to standardized contracts. He stated that the Forum's idea was to bring more liquidity into the members' markets and thus to create standardized products that could trade on exchanges. Mr. Erkan said that in addition to conventional products, Exchanges can also help provide extra liquidity and efficient price discovery mechanisms to facilitate the development of Islamic financial products.

Mr. Erkan went on to say that the Forum worked on the standardization of repo transactions so that a mechanism can be devised to trade sukuks more often and with more liquidity on stock exchanges, which will in turn attract more issuers to issue sukuks.

Mr. Erkan also shared some figures on the Islamic financial markets, indicating a growing demand for Islamic products. Mr. Erkan added that the Forum should place priority on promoting the value of Islamic market instruments and getting well equipped to meet the potential demand for these instruments.

Finally, Mr. Erkan gave brief information on the meeting program, and before closing his speech, he thanked Abu Dhabi Securities Exchange for hosting the event and for their efforts in the organization of the meeting.

2. Mr. Rasheed Al Baloushi, Deputy Chief Executive Officer and Director of Operations of Abu Dhabi Securities Exchange, welcomed all delegates to Abu Dhabi on behalf of the Abu Dhabi Securities Exchange. He emphasized the growing worldwide interest in Islamic financial products and added that as a result of this development, countries and financial centers like United Kingdom, London, Paris, etc. tried to be the hub for the Islamic financial instruments. He noted that the question that needed to be asked was that why this Islamic hub should not be in one of the 54 members of the OIC, having the expertise, Shariah scholars and the people doing the job properly and perfectly. He added that such meetings always encouraged the members to work hard and produce tools to do even better what is already done to position the members to be the financial center for the Islamic products. He finally mentioned that he hoped to see more commitment and hard work after two days of meeting to make the Forum play a big role into the Islamic instruments, and thanked all delegates.
3. Following Mr. Baloushi's speech, a ceremony was held for the signing of two MoUs, the first between the Abu Dhabi Securities Exchange and the Istanbul Stock Exchange and the second between Takasbank (ISE Settlement and Custody Bank) and the Abu Dhabi Securities Exchange.
4. Dr. Hussain Hamed Hassan, Shariah Scholar, Dar Al Sharia Legal & Financial Consultancy delivered a speech entitled "Islamic Financial Instruments Tradable on Exchanges and Other Liquidity Management Financial Instruments".

(A copy of Dr. Hussain Hamed Hassan's speech is herewith attached as Annex 1)

5. A workshop on "Islamic Repo and Collateralization Possibilities" was held. Presentations at the workshop were delivered by Mr. Ijlal Alvi, CEO, IIFM and Mr. Habib Motani, Clifford Chance (London).
6. Mr. Hamed Soltani Nejad and Mr. Abolfazl Shahrabadi presented the report of the Task Force for OIC Capital Markets Linkages.

(A copy of the report of the Task Force for OIC Capital Markets Linkages is herewith attached as Annex 2)

7. A visit was organized to ADX and during the visit Mr. Elie Ghanem, Head of Market and Product Development of ADX delivered a presentation about the "Market Linkage among ADX, Dubai Financial Market and the Muscat Securities Market".
8. Ms. Senay Pehlivanoglu, Assistant Director, Foreign Securities Market, Istanbul Stock Exchange, presented the report of the Task Force for Customized Indices and Exchange Traded Islamic Financial Products.

(A copy of the presentation of the Task Force for Customized Indices and Exchange Traded Islamic Financial Products is herewith attached as Annex 3)

9. Mr. Jonathan Cooper, Managing Director for Middle East and Africa, FTSE, delivered FTSE's presentation on "Creation of an OIC Index".
10. Mr. Richard Souri, Vice President and Mr. Jim Leggate, Executive Director, MSCI Barra delivered MSCI's presentation on "Creation of an OIC Index".

11. Mr. Charbel Azzi, Business Development, MENA Region and Mr. Rodney Fernandes, Vice President, EMEA Region, Standard and Poors' delivered the presentation of Standard and Poor's on "Creation of an OIC Index".

12. Ms. Filiz Kaya, International Relations Director, Takasbank, presented the report of the Task Force for Post-Trade Services.

(A copy of the presentation of the Task Force for Post Trade Services is herewith attached as Annex 4)

13. Dr. Tarek Abdel Barry, Managing Director, MCDR (Misr for Central Clearing, Depository and Registry) delivered a presentation on "MCDR experience in joining Linkup Markets as part of CSDs interlink".

(A copy of the Mr. Abdel Barry's presentation is herewith attached as Annex 5)

14. Ms. Sairana Mohd Saad, Assistant Vice President & Head of Marketing for Islamic Markets, Bursa Malaysia presented the report of the Task force for the Promotion, Awareness and Investor Education about Islamic Financial Markets.

(A copy of the Ms. Mohd Saad's presentation is herewith attached as Annex 6)

PROPOSALS, RECOMMENDATIONS AND DECISIONS

Subsequent to the presentations, Mr. Erkan wrapped up the two days' discussions noting the following points:

Financial instruments:

Repo: Among various financial instruments, repo is considered to be quite a useful tool as sukuk are becoming popular but are quite illiquid. Repo can help increase the trading volume of sukuk, which will produce an increase in the desire for the sukuk issues. From a Shariah perspective, it may not be Shariah-compliant, but the Forum may have recourse to IIFM for assistance in devising a Shariah-compliant product..

There were four structuring possibilities presented at the meeting, namely; Bilateral Structure (concept 1), Bilateral Structure with Different Undertakings (concept 2), Three Party Structure (concept 3) and Collateralized Repo (concept 4). Out of these four possibilities, IIFM recommendation is for concept 3 and 4. Under concept 3 there is clearly a role for OIC Exchanges' Clearing Houses to act as a risk taking third party. IIFM Repo Reference Paper is due to be published in July 2010 which will have complete details on the possibilities to structure a repo like liquidity management tool with the aim to take the project further.

With the release of the Repo Reference Paper by IIFM, the first half of the joint work on repo will almost be complete and much more definite answer is likely to come about by the Annual Forum Meeting.

Commodity Murabaha: Commodity murabaha is an advantageous instrument as it can be traded OTC bilaterally and at the same time, any commodity contract that is traded on the exchanges can be used for commodity murabahas. Invention of a new instrument is not required. The only thing that is missing is that many of the member exchanges do not trade commodity contracts. Thus, ETFs based on commodity contracts can be utilized as an alternative which can be traded on the member exchanges as well.

Indices:

As per the OIC Index, proposals were made by three major index providers with regards to construction of an index. The Forum prefers that the companies in the OIC countries be represented in the indices, as there are many Shariah compliant indices already available. It is believed that the OIC index will create a new demand among the investors. S&P noted that there is already some interest within the MENA Region on OIC listed securities.

Linkages:

A proposal entitled “Settlement-Aware Market Interlink Protocol” for linking trade and post trade service providers among OIC countries' capital markets was presented by Tehran Stock Exchange and Central Securities Depository of Iran. Among the various linkage alternatives reviewed, the ASEAN example, which will be in effect by mid-2011, is found to be a functional example. Also, the other example, that is, the linkage of Abu Dhabi Securities Exchange, Dubai Financial Market and Muscat Securities Market, is a very simple one and works well. However, if more stock exchanges were added into this type of linkage, it would be more complicated.

In addition to these models, new models can be devised. The idea is to increase the number of linkages so that the cross country trades can be expedited and the trading volume between the member countries may be increased.

Promotion and Awareness:

OIC Directory: Bursa Malaysia presented the template of the OIC Directory. It was mentioned that the Forum was an informal platform aiming to raise awareness about the member exchanges of the OIC, rather than the OIC itself as an organization. As an informal organization, the Forum does not have a budget, and therefore awareness should be raised through the member exchanges' own means, rather than the Forum spending money on the commercial activities. In this respect, the Directory will be an introduction to promoting the OIC member exchanges, post-trade institutions and other related institutions and organizations.

Website: This year, the Forum Secretariat is planning to convert the Forum website (<http://www.oicexchanges.org>) to an interactive website, where the members will be able to feed some data such as member announcements and market figures through direct access to the site, which will be provided by the Secretariat. The member exchanges were also asked to put a link from their websites to the Forum website.

OIC Project of Thomson Reuters: Mr. Rushdi Siddiqui has been leading a project for creating a section within Thomson Reuters on the OIC member exchanges. Accordingly, all data disseminated from these exchanges will be put in a separate group and there will be new pages for the OIC member exchanges only. The Forum considers this as a very important promotional activity.

Post-Trade Services:

The questionnaire which has been prepared by Takasbank as the task force coordinator, was referred to and it was mentioned that the input was not enough, since the practices of only eight or nine CSDs' had been compiled. There was a suggestion that an inter-committee meeting be held between the task forces for OIC Linkages and Post-trade services with regards to the work on linkages.

The following proposals and recommendations were made and decisions were taken at the meeting:

1. All task forces shall come up with the next step including the road map, time schedule and a more specific proposal.
 - a. The Task Force for Customized Indices and Exchange Traded Islamic Financial Products will analyze the proposals of the international index providers and present the best proposal at the 4th Forum meeting to be held in Istanbul in October 2010.

The Task Force shall continue the work on offering alternative instruments, which are practical, easily comprehensible and cost effective, particularly exchange traded commodity contracts and Islamic repos, and shall make recommendations to the Working Committee.
 - b. The Task Force for Post-Trade Services shall work on the opening of bilateral correspondent accounts between the Forum members as the initial step of the work towards execution of cross border trades. The Task Force for Post-Trade Services shall present a guideline to the Annual Meeting, including the CSDs' considerations for linkages, as well as the steps to be taken, minimum requirements and the technology involved.
 - c. The Task Force for OIC Capital Markets Linkages will study the current models established by some of the members as well as alternative models and determine the members among which such models can be established. The Task Force shall present a guideline to the Annual Forum Meeting with regards to the linkages similar to the one to be prepared by the Post- Trade Services Task Force.
 - d. The annual publication to be prepared as a directory by the Task Force for the Promotion, Awareness and Investor Education about Islamic Financial Markets, covering information on the member exchanges as well as research, articles, advertisements and educational materials shall be further improved with the individual input of the member exchanges and the final draft shall be made ready before the 4th Forum Meeting.
2. An interactive link shall be created on the website of the OIC Member Stock Exchanges <http://www.oicexchanges.org>, which was launched in January 2009, for all members to share their views and to follow up on updates and new achievements. The member exchanges shall create a link from their own websites to the Forum website..
3. The contact details of the Forum members shall be kept up-to-date by the Forum Secretariat all the time, to secure the highest level of communication.
4. The report of the meeting shall be sent to the members who could not participate in the meeting.