

OIC Member States' Stock Exchanges Forum

Minutes

**Subject : First Working Committee Meeting
Tehran, Esteghlal Hotel, 5-6 May 2009**

Chairman: Huseyin Erkan, Istanbul Stock Exchange

Secretariat: Amir Yousefianpour, Elham Moslemi, Fereshteh Mehrnia

The meeting was attended by the representatives of the following stock exchanges of OIC member states and other entities:

1. Bursa Malaysia
2. Chittagong Stock Exchange
3. Dhaka Stock Exchange
4. Dubai Financial Market
5. Islamabad Stock Exchange
6. Islamic Development Bank
7. Istanbul Stock Exchange
8. Lahore Stock Exchange
9. Muscat Securities Market
10. Securities & Exchange Organization of Iran
11. Takasbank-ISE Settlement and Custody Bank
12. Tehran Stock Exchange

Present:

Zaini Long (Bursa Malaysia); **Nasiruddin Ahmed Chowdhury, Abu Bakar Siddique** (Chittagong Stock Exchange); **M. A. Quayum, A. F. M. Shariful Islam** (Dhaka Stock Exchange); **Hassan Abdulrahman Al Serkal** (Dubai Financial Market); **Aftab Ahmad, Syed M. Asghar Abbas Naqvi** (Islamabad Stock Exchange); **Abdul Aziz Al Hinai** (Islamic Development Bank); **Huseyin Erkan, Aril Seren, Eren Kiliclioglu, Eralp Polat, Ali Erogul, Ali Kucukcolak, Mustafa Kemal Yilmaz** (Istanbul Stock Exchange); **Shakeel Aslam** (Lahore Stock Exchange); **Sulaiman Mohammed Al-Rashdi** (Muscat Securities Market); **Majid Pireh, Mustafa Zehtabian** (Securities & Exchange Organization of Iran); **Emin Catana, Mr. Sezai Bekgoz** (Takasbank); **Ali Sanginian, Ali Abbas Karimi, Abolfazl Shahrabadi** (Tehran Stock Exchange)

1. Opening

Following recitation from the Holy Koran, the event was officially opened by Mr. Huseyin Erkan, Chairman and CEO of Istanbul Stock Exchange and the working committee's chairman.

He appreciated the members' participants to the first working committee meeting of OIC member states' stock exchanges forum and also welcomed Dr. Abdul Aziz Mohammed Zahir Al Hinai, Vice President (Finance) of Islamic Development Bank, as the guest of the event.

After a short review of the forum's background, Mr. Erkan mentioned the resolutions of its second meeting and the integration of two past committees into one working committee and launching of four taskforces in order to explore various areas of cooperation and report the activity reports by each member.

The chairman of the working committee also emphasized on the ongoing necessity of struggling for the adverse effects of the global financial crisis, and asked for the forum members' cooperation, as an important factor and a chance to turn the crisis into an opportunity.

Mr. Erkan pointed out that today the Islamic assets size was estimated to reach billions of US dollars globally, with an annual growth trade over about 15 to 20 percent. Referring to these facts and the embedded risks in trading some of the financial products, he believed that the Islamic finance industry has been granted with an opportunity to extend its attendance in the traditional capital market.

He confirmed the significance of the organized Exchanges and considered them as the right venue for price discovery, which was regarded very important for capital markets' development. Transparency, liquidity full disclosure and good corporate governance were mentioned among the advantages of the Exchanges to attract investors.

2. Welcome Speech

Dr. Hasan Ghalibaf Asl, CEO of Tehran Stock Exchange, welcomed the audience and expressed his appreciation to Mr. Erkan for running the event.

He recognized the event as a gathering to discuss about the important issue of establishing a common Exchange among the Islamic countries and underlined the growth of Islamic countries' markets during the last two decades in size and complexity.

Dr. Ghalibaf Asl also stressed the democratization of all markets, which allow the easy access to investors and members, while the creativity and competitiveness of the securities industry has led the markets worldwide to respond to opportunities; mergers, integrations and regional alliances.

He considered the partnership very fruitful for the members of the forum, and a prerequisite to development.

Then he asked for a support of members to deeply study the related issues and make firm steps to broaden cooperation, which he seemed very appropriate, as the current financial crisis has brought some failure to a number of conventional financial instruments.

3. Keynote Speech

Dr. Abdul Aziz Mohammed Zahir Al Hinai, Vice President (Finance) of Islamic Development Bank was the keynote speaker, who continued the session with his kind gratitude for the event's organizers and provided invaluable remarks on developing Islamic financial markets and IDB's activities on financing companies through these markets instruments.

He reiterated the previous speakers' emphases on the importance of cooperation and collective solving of development challenges, especially while facing a global crisis.

In his words, Dr. Al Hinai confirmed the international recognition of the potential represented by the Islamic capital market, and mentioned the establishment and expansion of Islamic indices.

IDB was announced to be dynamically attending the market by financing activities, resource mobilization and expanding the frontier of Islamic capital market. He also declared that the bank played a role in institutionalizing and consolidation of the Islamic financial architecture by helping to establish international regulatory institutions such as AAOFI, IFSB, IRA and LMC.

The keynote speech was ended by Dr. Al Hinai's encouragement and support. The encouragement went to the members for a critical examining of the opportunities to be able to benefit the Islamic finance as a new asset class for bringing new economic growth to the countries. On behalf of IDB, he did also support all initiatives at national and regional levels aimed at periodic policy dialogue on capital market development, building a sound transparent institutional set up with proper governance structure, and harmonization of legal and regulatory regimes.

4. Activity reports

Following the opening and general remarks of the working committee meeting, and after the representatives' self introduction, more technical discussions began. The four taskforces established in the forum's second meeting in Istanbul, provided their reports (attached) to the members.

Tehran Stock Exchange, the coordinator of the taskforce for studying the feasibility of an Islamic Securities exchange provided the report dealt with the pros and cons of launching a unified market for Islamic countries stock exchanges. The comments to the report suggested that such an organization's success needed a powerful intermediary and their subsidiaries in order to guarantee the required liquidity, functionality and business accomplishment and IDB was introduced as a suitable venue for help.

The members' second priority of pre-establishment studies was the instruments to be traded in the common Exchange. More research was called on for the members'

concerns, especially the liquidity of the *Sharia*-complied instruments of the Exchange.

The coordinator of the taskforce for customized indices, ETFs and Islamic depository receipts, **Istanbul Stock Exchange** presented the second activity report.

It was believed that despite numerous Islamic indices in the world, their contents are originated from non-Islamic countries. The purpose was to include equities that were from our Exchanges and *Sharia*-based. Some members also confirmed to access the capability for such an index calculation; however, to guarantee the international credibility, some cooperation could be foreseen with renowned index providers.

The taskforce's other concern was to attract liquidity towards the member countries' Exchanges through introducing the Islamic equities indices. So it was suggested to devise ETFs based on the index and list them in different countries. This would surely bring some complications, especially regarding various currencies and different settlement periods. The problem was told to be reviewed with the cooperation of CSDs.

This idea actually referred to the next report by **Takasbank**, the coordinator of the taskforce for post-trade services.

The members suggested that for the quality services, countries' regulatory bodies should be called on. Also, it seemed appropriate to ask the member Exchanges' separate clearing and settlement institutions be invited to join the taskforce.

Bursa Malaysia provided the final report in the session, for the promotion of awareness and education of investors about Islamic capital markets taskforce. Some concerns were pointed out regarding the advertising Islamic financial instruments in some secular countries, and it was suggested that some introductory steps should be taken through the websites.

5. Panel Discussions

In the afternoon session, three representatives of participants presented their panel discussions over their experiences and studies on exchange-traded Islamic capital instruments. The panellists were from **Bursa Malaysia**, **Dubai Financial Market** and **Securities and Exchange Organization of Iran**. Enclosed you will be able to find their presentations.

6. Suggestions and Closing Remarks

Chairman Erkan provided suggestions to the forum's members and summarized each taskforce activities in his final words. He also urged the members to follow up their studies and activities in the taskforces before the third forum's meeting, which is planned to be held October 24-25, 2009 in Istanbul, Turkey.

- Stock exchanges were encouraged to consult with scholars for new insights to develop various types of Islamic financial instruments.
- Cooperation among practitioners, regulators and scholars seemed necessary.
- The taskforce for studying the feasibility of an Islamic Securities exchange considered the idea of launching an independent Exchange not practical at the moment; however, the thought should be pursued. As the first stage, considering the different jurisdiction problems, it was believed that connectivity among member stock exchanges, through creating a common trading platform was much easier and more feasible. Here, CSDs were invited to take part in the related taskforce activities and help the Exchanges. The process would be enabling the capital flow to the stock exchanges and providing liquidity.
- In order for the taskforce members to get more acquaintance with a similar platform and study a model, they were scheduled to make a visit to ASEAN countries' common trading platform in Malaysia, and probably other places. The visit was proposed to be held before end of September, enabling the members of the taskforce to provide their reports in the next forum's meeting.
- Based on the report of the taskforce for customized indices, ETFs and Islamic depository receipts, discussions were planned to be continued with some index providers, especially Dow Jones, since for launching an ETF there was a need to have an index; a general or regional and IDB would be consulted on

the issue. However, it was confirmed that the index components should be drawn from the members' markets.

- Islamic repo agreements should be worked on, designed and started to be traded on the Exchanges, thus Shariah scholars should be consulted to determine the possibility of having such contracts in line with the Islamic principles,
- Work on repo transactions can also be carried out in collaboration with the AAOIFI and IFSB, members of the OIC Exchanges Forum, that are already working on the topic,
- The key idea observed through the presentation of the taskforce for post-trade services and the subsequent discussions was to encourage CSDs, either as separate or dependant entities in each member Exchange, for more cooperation and joining the taskforce. The taskforce was also assigned to ponder about ETFs cross listing in the Exchanges which traded the instrument. This was firmly supported as well, that there was a need of assistance from the regulators to enter the scene for defining Islamic depository receipt and its trading instructions.
- The report of the taskforce for promotion of awareness and education of investors about Islamic capital markets insisted on the cooperation among members, as well as other non-Islamic countries interested in the Islamic instruments. Mr. Erkan also called members' attention to benefit the PR studies done by Bursa Malaysia. The taskforce activities were believed to smooth the ground for promoting the members' products around the global markets. Within this context Bursa Malaysia is expected to narrow the path for the start point and get a budget for general promotion and awareness activity, where each exchange can evaluate and decide on participating in the campaign.
- The members were asked to share their views with the secretariat and send their contact details for future correspondences.

- Istanbul Stock Exchange declared it would shortly make the OIC member states' stock exchanges forum's website uploading access available for all members.
- Chairman Erkan thanked delegates for their contributions and the host for its organization, and informed that Istanbul would contact members for the third forum's meeting. The meeting was then adjourned.