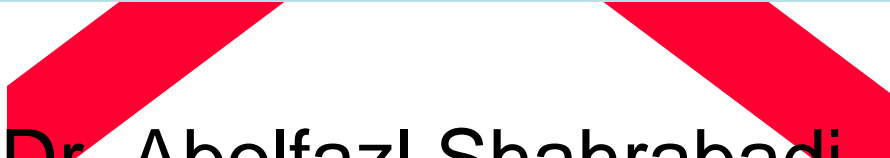


Studying the feasibility of an Islamic securities exchange

A red decorative graphic consisting of two overlapping trapezoidal shapes pointing towards each other, forming a larger, irregular shape.

Dr. Abolfazl Shahrabadi
Tehran Stock Exchange

The Working Committee Meeting
May, 2009

Task Force Members

Coordinator

- ❧ Tehran Stock Exchange

Participants

- ❧ Bursa Malaysia
- ❧ Dhaka Stock Exchange
- ❧ Dubai Financial Market
- ❧ Istanbul Stock Exchange
- ❧ Lahore Stock Exchange
- ❧ Muscat Securities Market
- ❧ Tehran Stock Exchange

Introduction

- The global economy witnessed an increase in the pace of integration. This process of globalization is most evidently observed in the capital and financial markets.
- national stock exchanges around the world recently made several attempts to upgrade their cooperation and improve their integration in different forms.
- the OIC countries have recently intensified their efforts to promote cooperation among their stock exchanges .
- So a study on the possibility of forming an international exchange or any other form of cooperation among exchanges of Islamic countries is a necessity.

History and overview of alliances

- Efforts to set up international cooperation among stock exchanges go back to the 1930s.
- years later after World War II; the International Federation of Stock Exchanges (FIBV) was established in London in 1961.
- In 2001, its name was changed to the World Federation of Exchanges (WFE).

History and overview of alliances

some of the main forms of alliances:

- *World Federation of Exchanges (WFE)*
- *Federation of European Securities Exchanges (FESE)*
- *Federation of Euro-Asian Stock Exchanges (FEAS)*
- *South Asian Federation of Exchanges (SAFE)*
- *African Stock Exchanges Association (ASEA)*
- *Southern African Development Community (SADC) Exchanges' Committee*
- *Federation Iberoamericana de Bolsas de Valores (FIABV)*
- *EURONEXT*
- *NOREX*

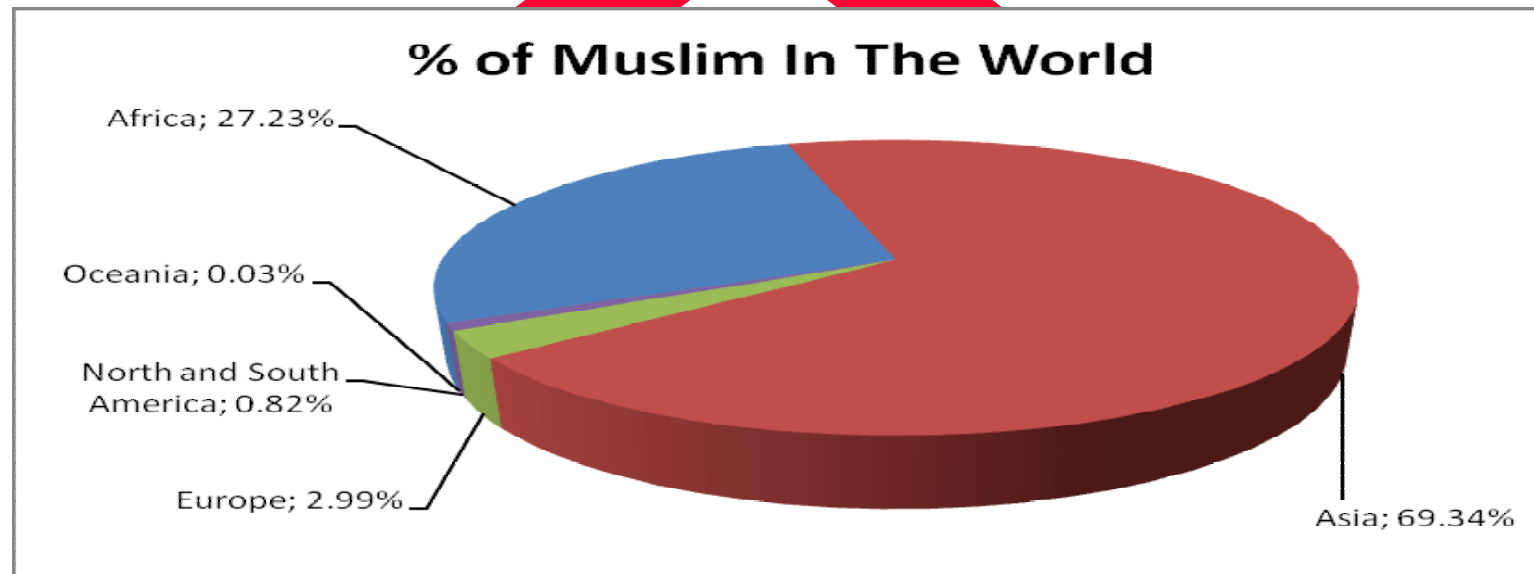
A Chronological Perspective of Cooperation Efforts Among the OIC Markets

- ✓ **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 was 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.

Status of OIC Countries

Population

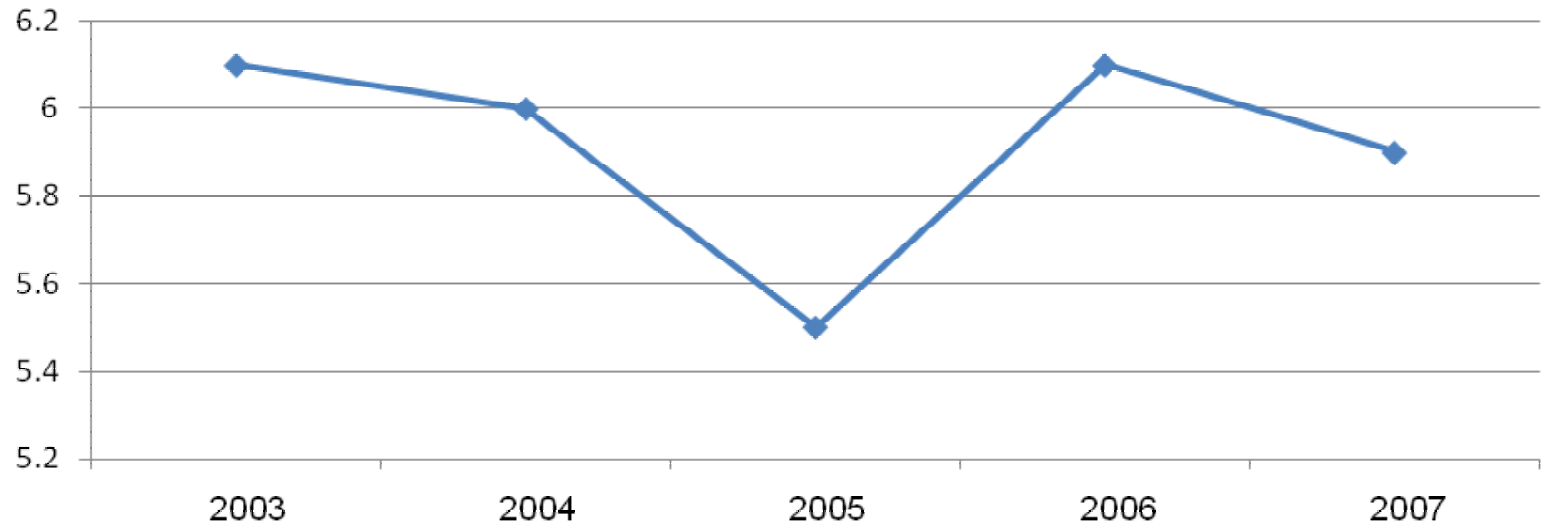
- In the world there are about 1.3 -1.5 billion Muslims , roughly one-fifth of the world population
- Around 30 to 40 countries in the world are Muslim-majority.
- In 2006, countries with a Muslim majority had an average population growth rate of 2.35% per year



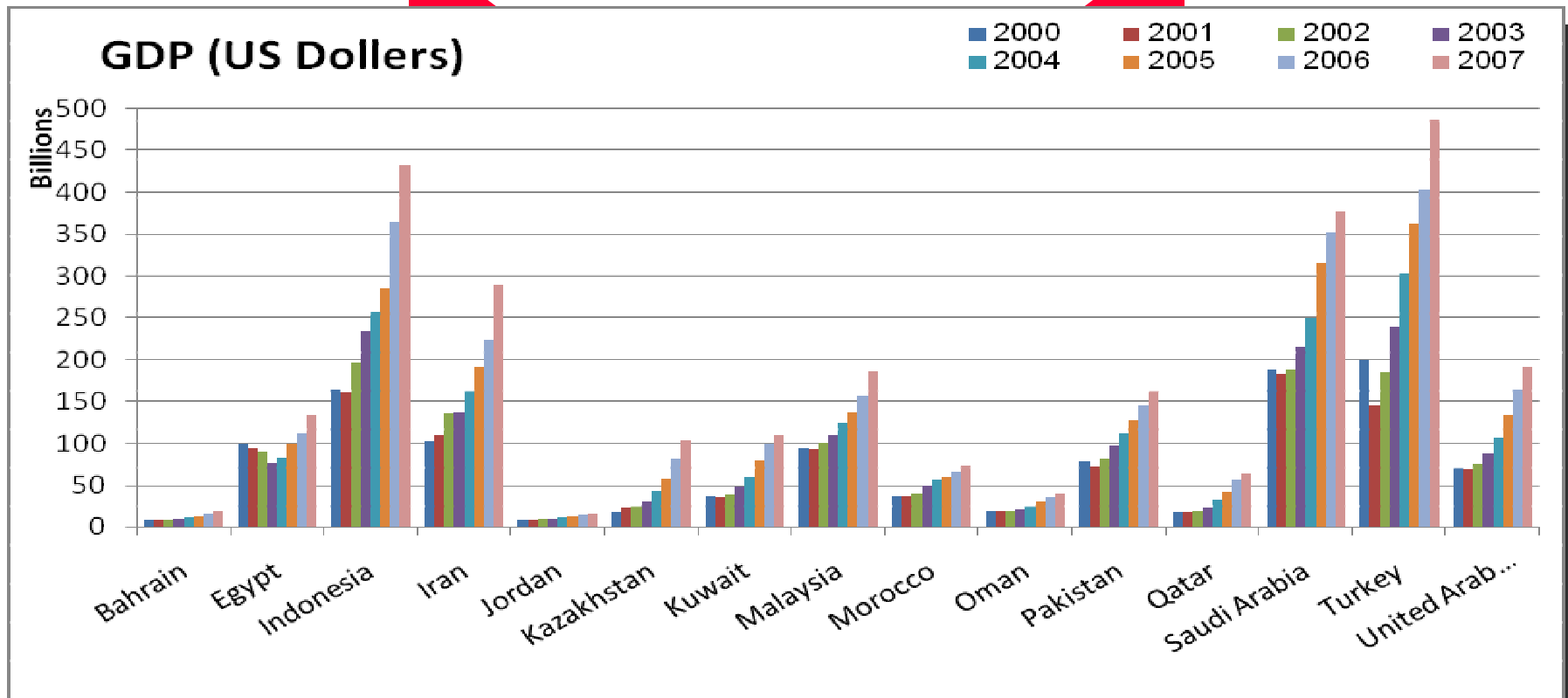
GDP

The economy of the OIC combines the economies of 57 member states. Those 57 countries have a combined GDP (at Purchasing power parity; PPP) of \$ 7,740 billion. (12.7% of the world)

Average OF Economic Growth for 5 years (GDP)

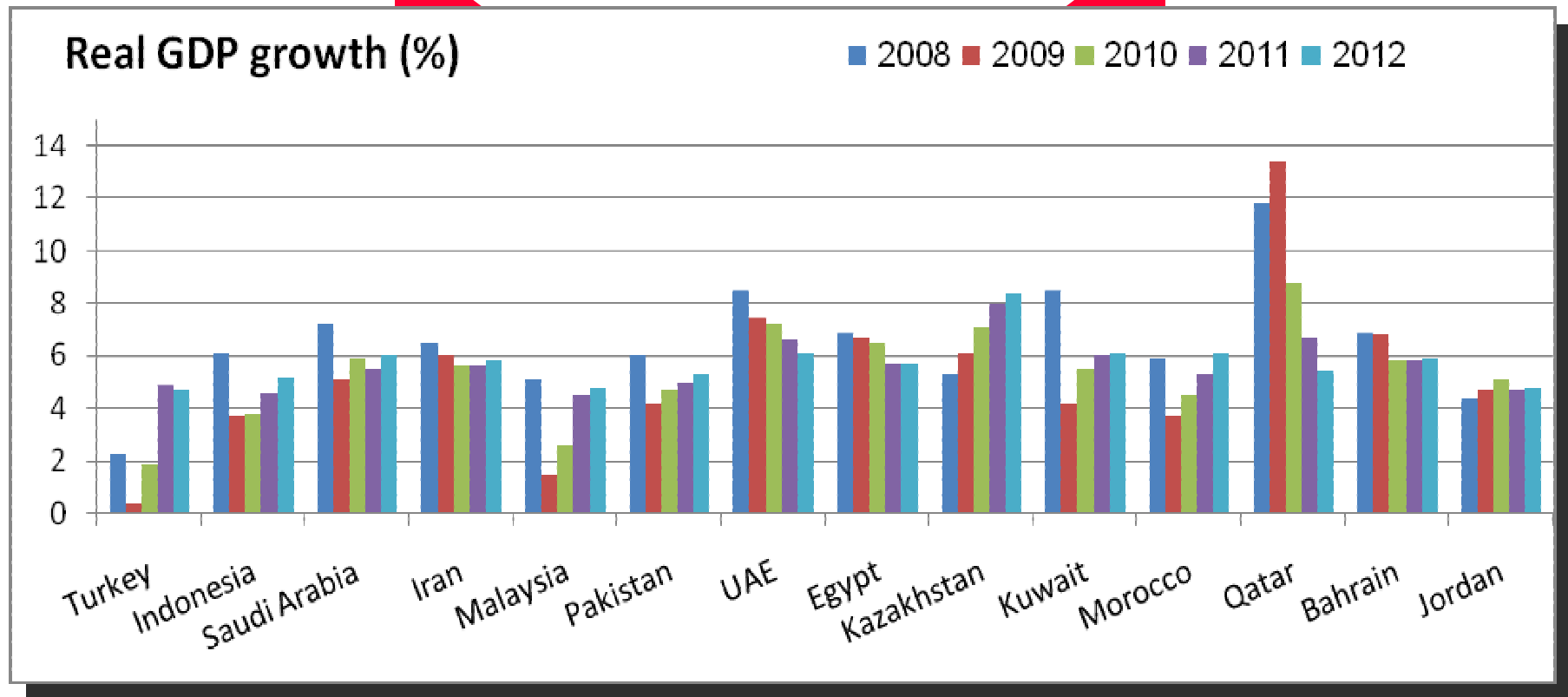


GDP



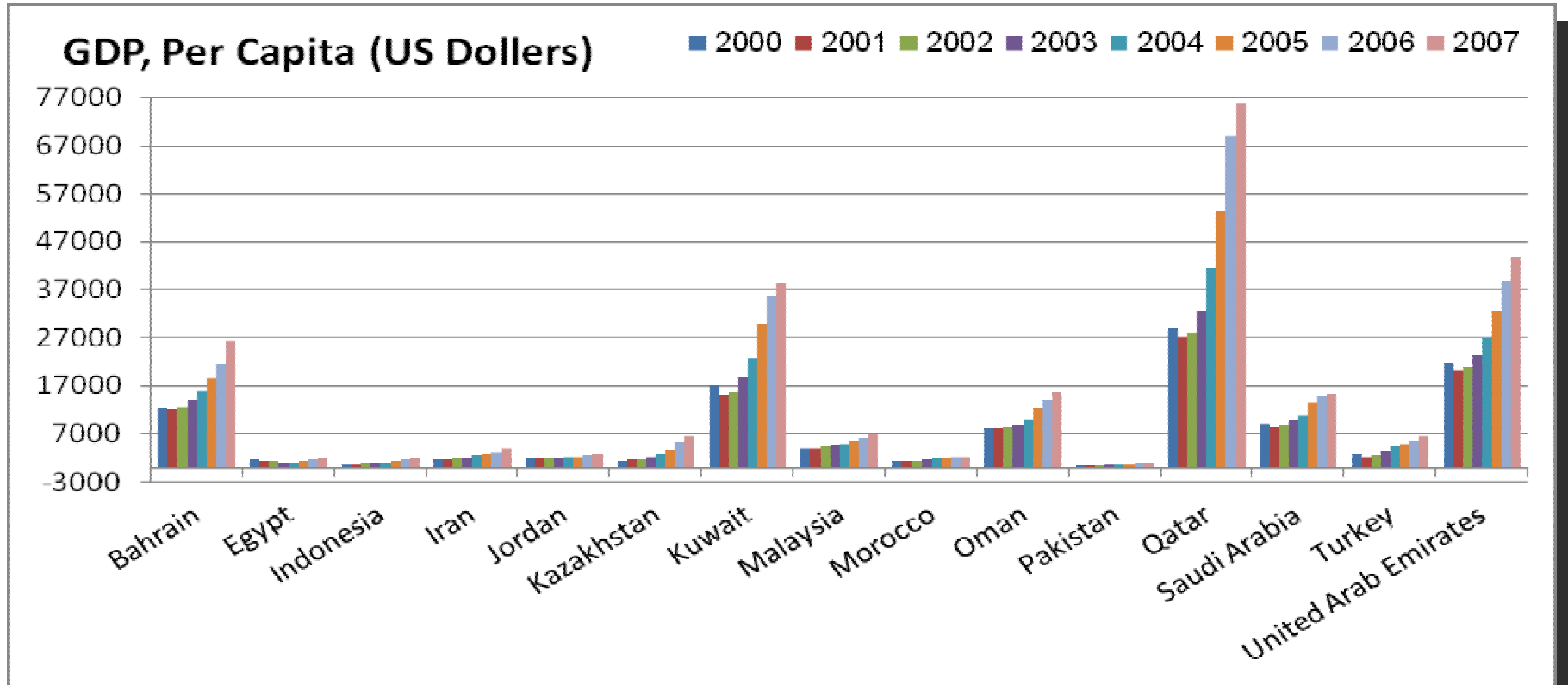
- The GDP for all of the countries goes up from 2000 until 2007 and the average of their growth percentage is around 12.97%.

Real GDP growth



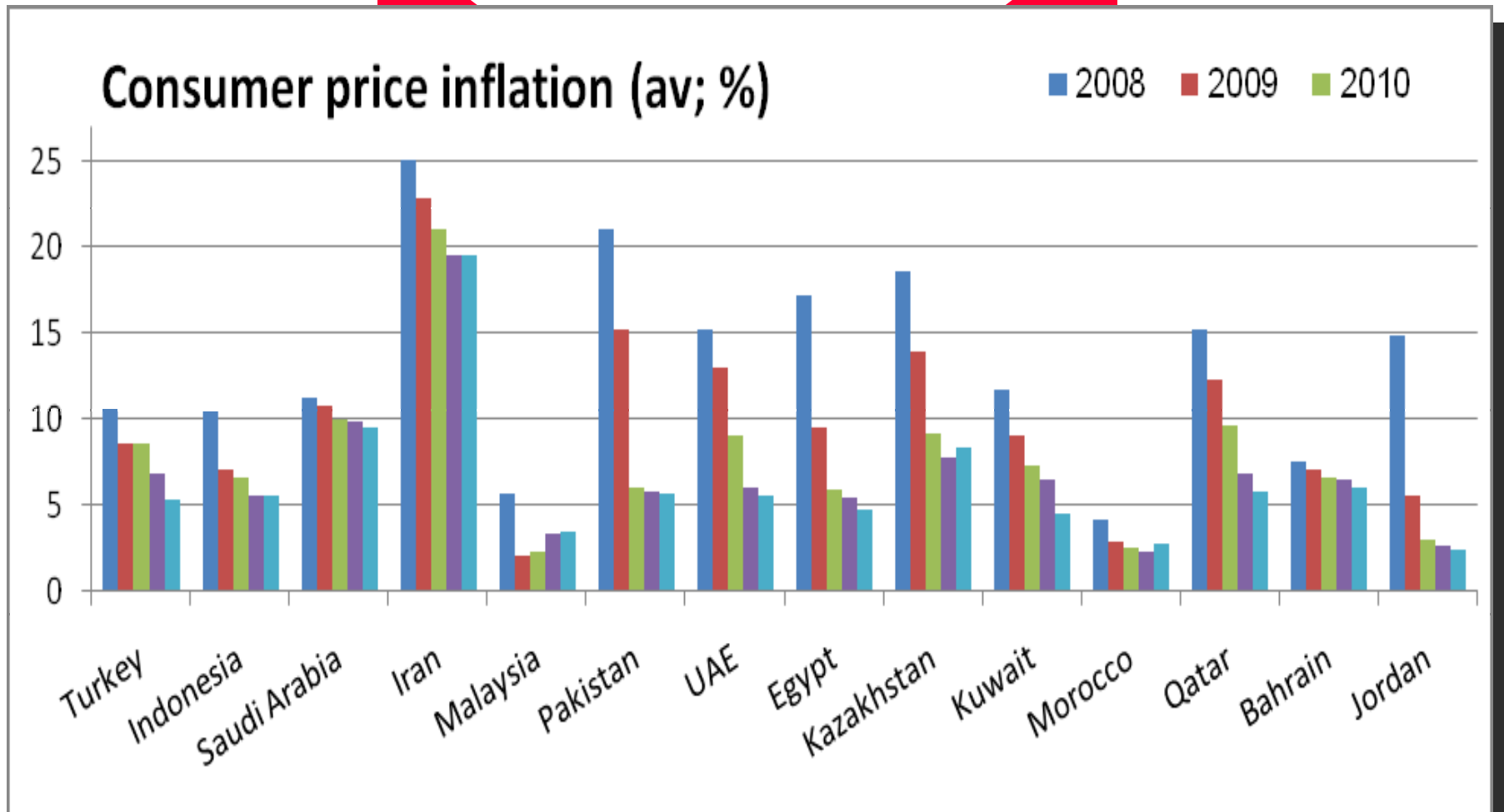
The annual average of this index for all of the countries is around 5.7%.

GDP per Capita

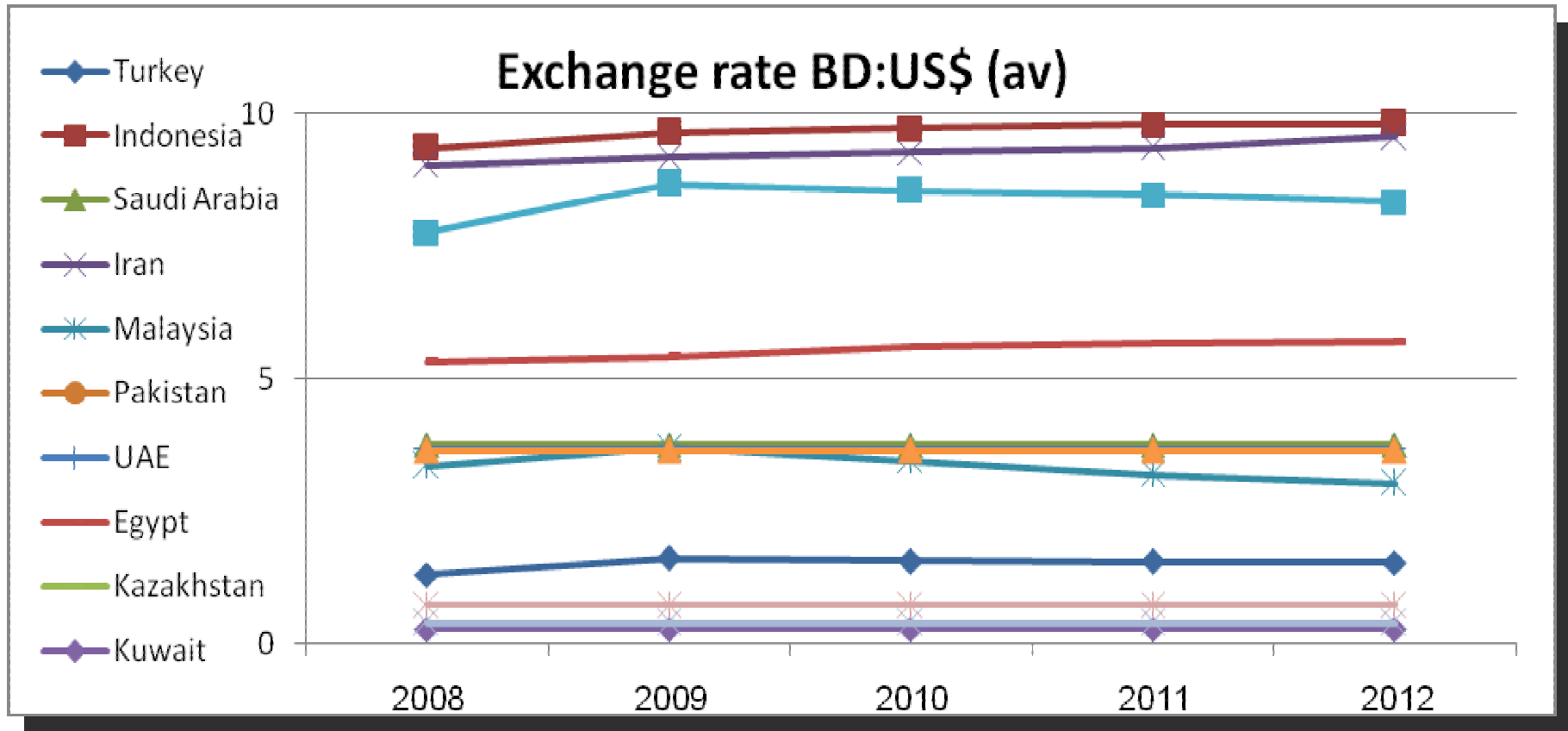


The grow average of this index for all of the countries is around 11.9%.

Consumer price inflation



Exchange rate

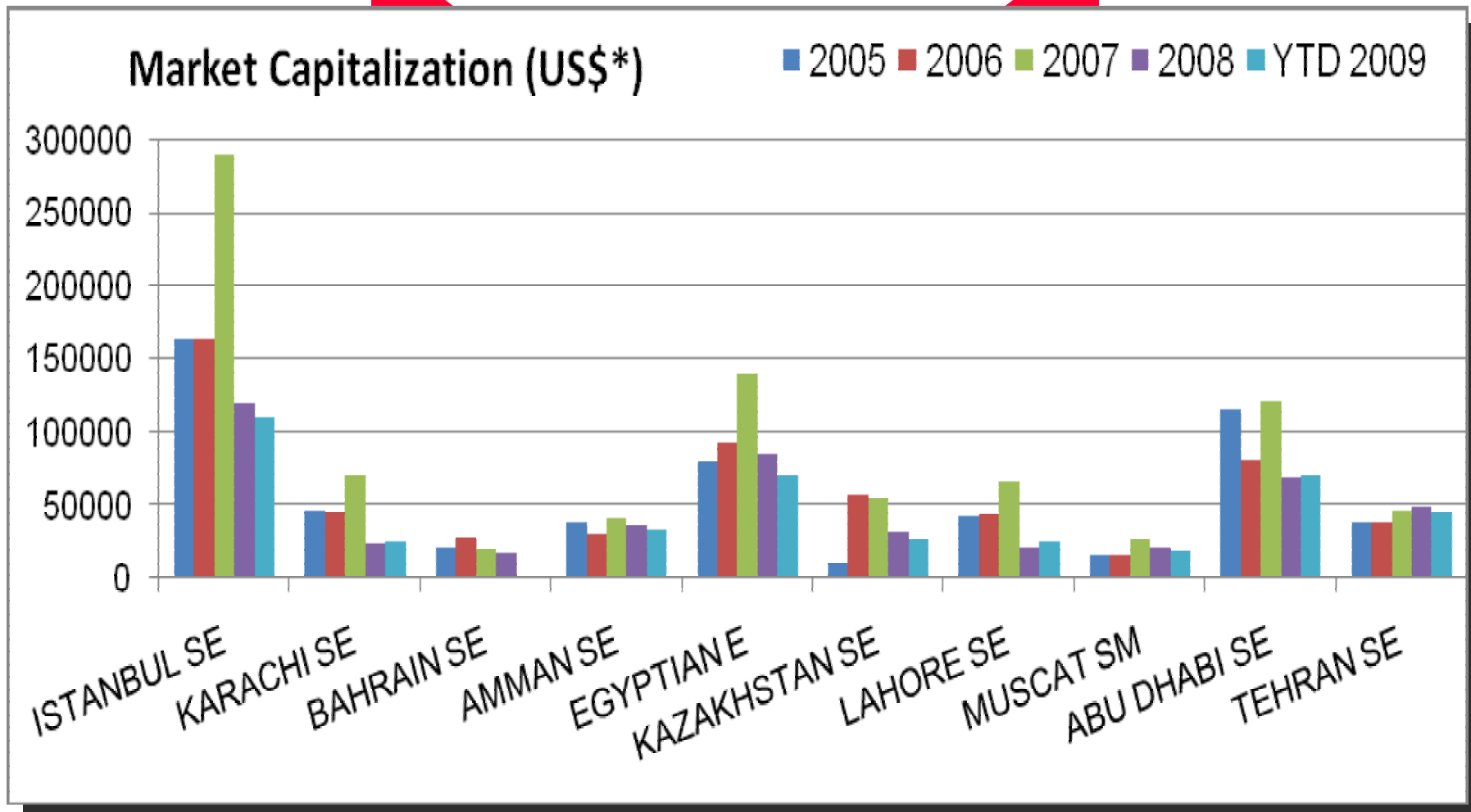


It seems that all of countries above will hold the fixed rate for future.

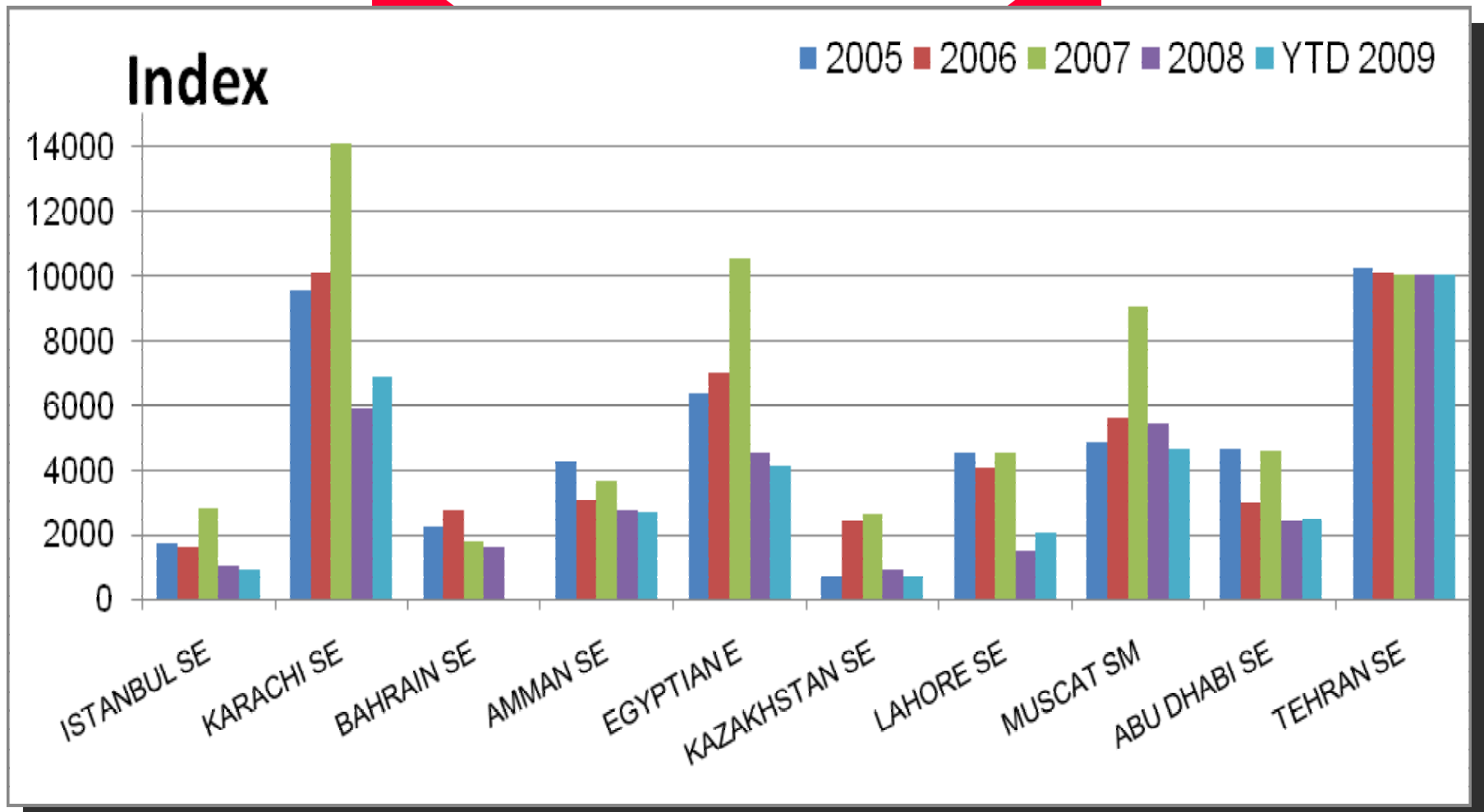


Status of OIC Markets

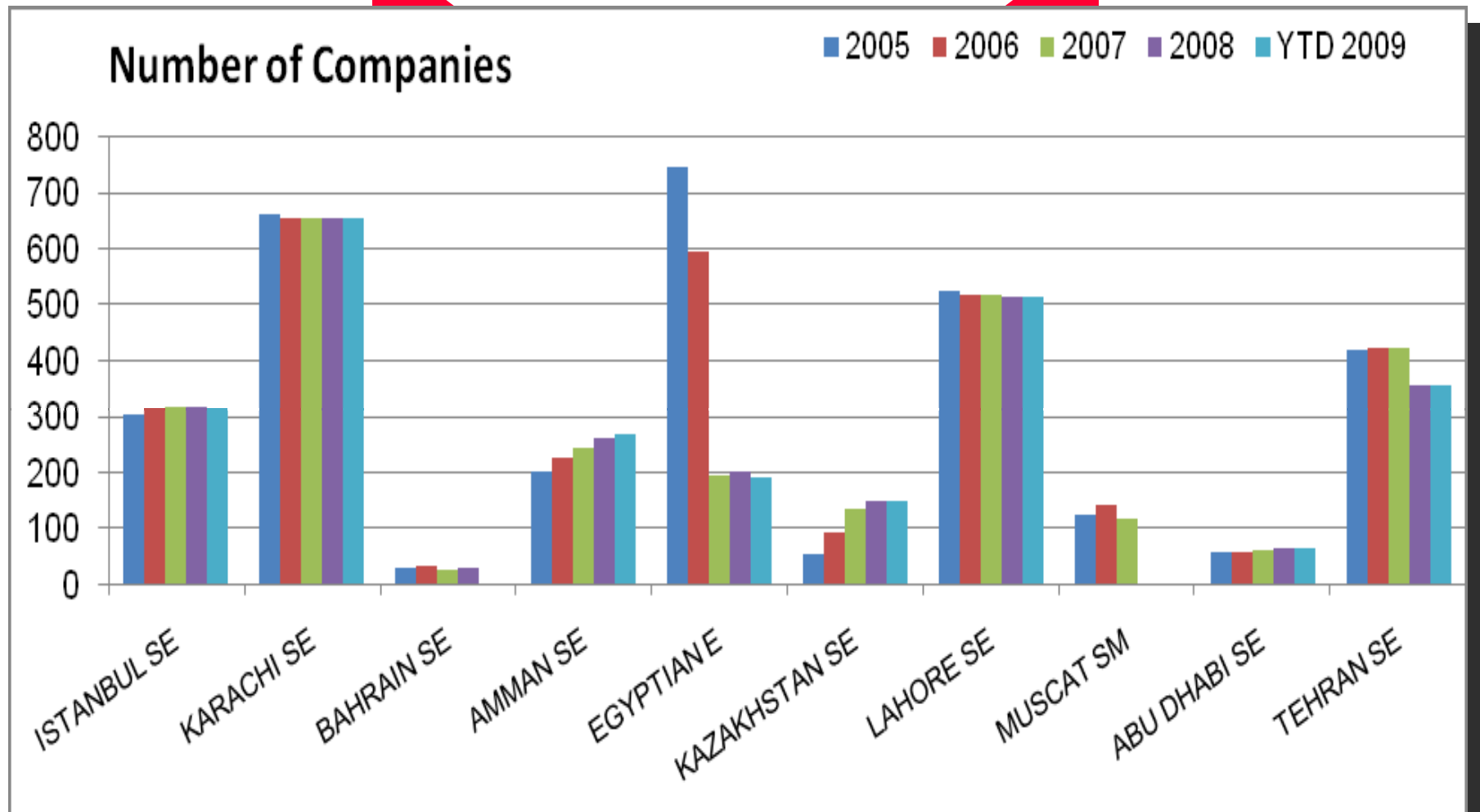
Market Capitalization



Index



Number of listed Companies



- The previous slides show that:
- In the selected sample of Islamic countries, indices such as: population, GDP, GDP per capita, in recent years and their outlook in following years have been increasing.
- Inflation is decreasing and exchange rate is constant.
- Market cap And market indices are firstly ascending and in last 2 years are descending (financial crisis)



Comparison

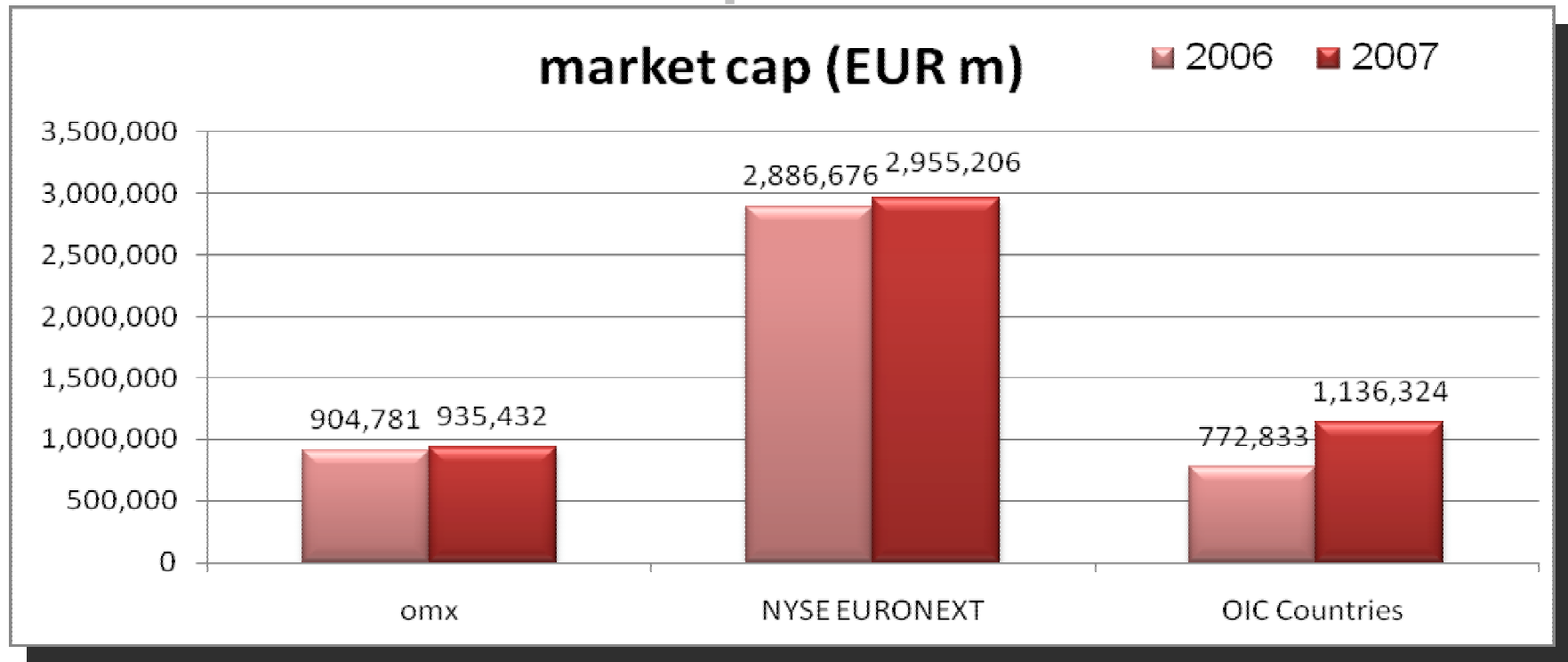
NYSE EURONEXT

Type of company	Joint-stock company
Listed	On NYSE Euronext
Year of Incorporation	2006
Active in	Belgium, France, Netherlands, Portugal, United Kingdom and USA
market cap (EUR m)	2,955,206
Listed Domestic company	13,969
Revenues	2,993,027
Cash	2,338,707
EBITDA	654,320
EBIT	654,320
Net Income	462,847

OMX

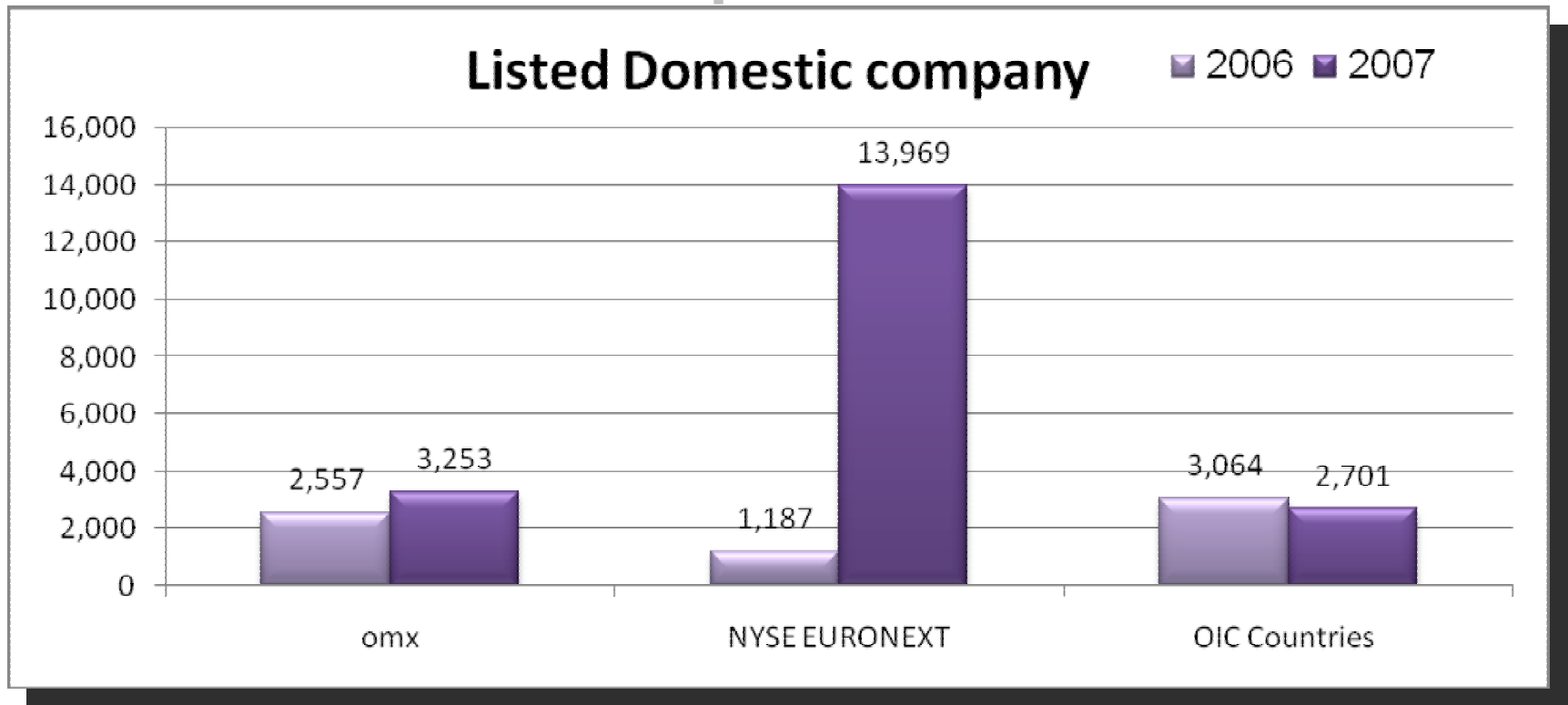
Type of company	Joint-stock company
Listed	On NASDAQ, NAZDAQ Dubai
Years of Incorporation	2008
Active in	Armenia, Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Sweden and Unites Kingdom
market cap (EUR m)	935,432
Listed Domestic company	3,253
Revenues	464,000
Cash	299,000
EBITDA	165,000
EBIT	141,000
Net Income	106,000

Comparison



Although the market cap of OIC countries is much less than NYSE EURONEXT, it is somehow more than OMX and it shows an acceptable potential of these countries for forming a joint exchange.

Comparison



The number of listed companies in the exchanges of OIC countries (10 countries) and OMX also shows a good amount of them for forming an exchange.

KINDS OF COOPERATION

DIFFERENT KINDS OF COOPERATION AMONG SECURITIES MARKETS

Cross Listing

Cross Membership

Common Trading Platform (CTP)

Cooperation with Existing Federations

Construction of Indices

Islamic securities exchange

First Suggestion

- Islamic securities exchange:
- Establishing the ISE with existing potential and abilities of islamic countries.

some advantages:

- independent entity
- independent rules and regulations
- uniform rules and regulations
- extensive availability by using electronic trading system
- equal conditions for all members and issuers

some disadvantages:

- administrative and operating costs
- competitor for local exchanges



Goals and objectives

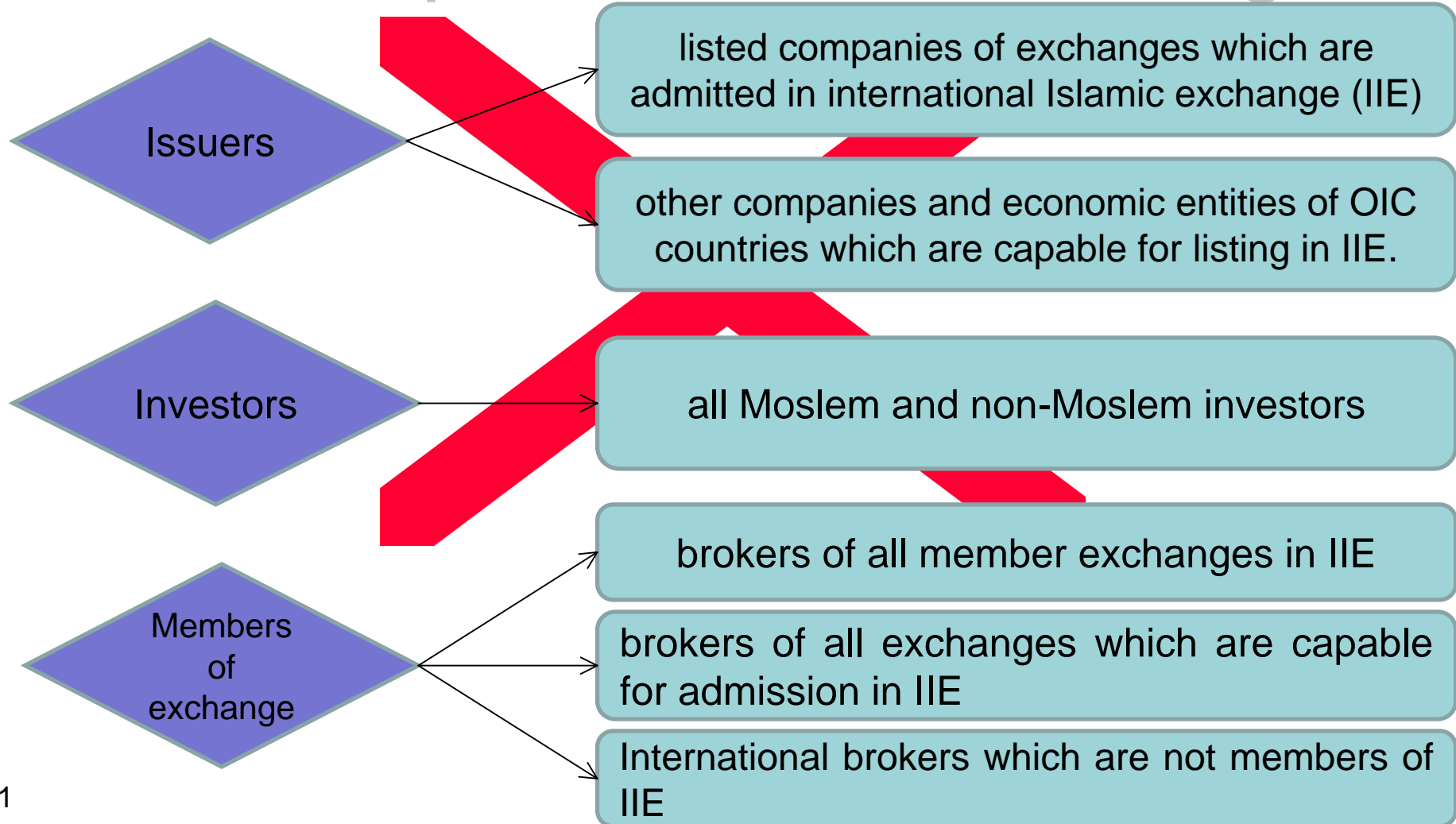
Goals and objectives

- Creating a common market for introducing and trading new Islamic financial instruments.
- Creating a market for financing projects and companies of Moslem countries.
- Preparing a good context for Moslems to invest in profitable and shariah compliant businesses and instruments.
- Serving as a forum for discussing the common problems facing the financial and capital markets in the OIC countries,
- preparing an opportunity for exchanges of Moslem countries to attend in an international market,

Goals and objectives

- Enhancing an effective regulatory and supervisory environment, Cooperation among the Stock Exchanges
- Helping the harmonization of accounting standards,
- Taking the necessary steps for facilitating foreign investment in the OIC capital markets
- increasing degree of integration among moslem countries.

Participants of the exchange



Tradable financial instruments

- common stock of all companies of Moslem countries
- common stock of companies of non-moslem countries which are engaged in shariah compliant businesses,
- Islamic funds (ETFs and ...)
- any other instruments complying Islamic rules.



Different suggestive aspects of Islamic securities exchange (ISE)

Legal form

- Securities and Exchange Commission (SEC)
- SEC members will be elected by the SEC of member exchanges for a specified period.
- a board of directors, selected by stockholders in the general meeting .
- it can be located in an economic free zone of a Moslem country

Ownership

- ❖ private joint stock company
- ❖ all Moslem countries can be its shareholders with equal or different share.
- ❖ registered in one of the Moslem countries



Opportunities

- Governments policy has been increasingly supportive of the development of common Islamic financial market in recent years
- The market for Islamic financial instruments has developed in a number of key ways.
- An important development in terms of increasing the liquidity of the Islamic financial markets has been the development of sukuk.
- the international financial crisis has set the stage for Islamic finance to demonstrate its viability as potentially a genuine alternative global financial system.
- The secondary market for Islamic products is extremely shallow and illiquid, and money markets are almost nonexistent, since ISE can help to change this situation.

Challenges

- ☑ A uniform regulatory and legal framework supportive of an Islamic financial system has not yet been developed
- ☑ Lack of Islamic accounting procedures and standards.
- ☑ lack of uniformity in the religious principles applied in Islamic countries.
- ☑ The absence of large and active domestic institutional investors.
- ☑ poor or non-existent corporate governance standards;
- ☑ lack of product diversification

Alternative suggestions

- A) trading Islamic ETFs and DR

issuing ETF of the exchange of each Muslim country or a combination of exchanges and offering it to the investors.

- advantages:

- ease of formation

- low cost of issuance

- international availability

- adjustable to the regulation of exchanges

- good experience of countries on it

Alternative suggestions

- B) common trading platform (CTP)

advantages:

- No need for new regulations.
- Extensive availability with low cost.
- extending the local markets.
- possibility of extensive financing.
 - harmonization of reporting and accounting standards.
- less time of formation.

Alternative suggestions

disadvantages:

- linguistic differences
- different reporting patterns
- different trading systems
- different market regulations.
- currency exchange and transfer problems
- need for centralized or harmonized CSDs



THANKS FOR YOUR ATTENTION