

Customized Indices, ETFs, and Islamic Depository Receipts Task Force

Islamic Liquidity Solutions

OIC Member States' Stock Exchanges Forum 3rd Meeting
October, 24-25 2009, Istanbul

Task Force Members

- **Coordinator**
 - ✓ Istanbul Stock Exchange (Turkey)
- **Participants**
 - ✓ Bursa Malaysia Berhad (Malaysia)
 - ✓ Tehran Stock Exchange (Iran)
 - ✓ Muscat Securities Market (Oman)
 - ✓ Amman Stock Exchange (Jordan)
 - ✓ Kyrgyz Stock Exchange (Kyrgyzstan)
 - ✓ Islamabad Stock Exchange (Pakistan)
 - ✓ Dubai Financial Market (U.A.E)
 - ✓ Doha Securities Market (Qatar)
 - ✓ Egyptian Stock Exchange (Egypt)

Objectives

- Providing alternative instruments to the investors
- Calculating a common benchmark Index and creating investable Islamic ETFs
- Encouraging cross-border listings, information and technology sharing
- Implementing standards for market integration and enhancing corporate governance practices

Customized Indices

Steps to Customize an Index

- Defining the requirements
- Designing and constructing a benchmark
- Testing and refining the solution
- Managing the delivery, providing on-going maintenance and support

Customized Indices

Aspects of a Customized Index

Applied Screens

- Country, region
- Sector
- Style
- Size
- Company
- Socially Responsible Inv.
- Environmental
- Stock Exchange
- Security Type
- Fundamental and valuation ratios
- Liquidity filters
- Shari' ah Criteria

Customize the Index Weighting Scheme

- Equal Weighted
- Fixed Weighted
- Capped Weighted
- GDP Weighted
- Special Weighting

Customize the Index Currency and Tax Rates

- Report in a foreign or local currency
- Full or partial hedging
- Apply special tax rates

Customized Indices

Islamic Index Screens

Generally Accepted Business Activity Screening

Although no universal consensus exists, most Shari'ah Boards have advised against these activities:

- Alcohol
- Tobacco
- Pork-related products
- Conventional financial services (banking, insurance etc.)
- Weapons and defense
- Entertainment (hotels, casinos/gambling, cinema, music etc.)

Customized Indices

Islamic Index Screens

Generally Accepted Financial Ratio Screening

Although there is no consensus, the following ratios are expected to be less than 33%

- Total debt divided by trailing 12-month average market capitalization
- The sum of a company's cash and interest-bearing securities divided by trailing 12-month average market capitalization
- Accounts receivables divided by trailing 12-month average market capitalization

Customized Indices

Benefits of an OIC Index

- International awareness
- Cooperation between exchanges
- Risk diversification
- Lower trading costs
- Enable to construct and issue new products for special investment needs
- Cost and revenue sharing

Customized Indices

Roadmap for an OIC Index

Stage 4 - Decision

Deciding on index provider, constituent members
Setting the rules, discussing costs and revenues

Stage 3 - Work in Progress

Consulting with index provider companies

Stage 2 - Analyse ✓

Getting information about members' capital markets,
Analysing FEAS and GT-30 customized indices as models

Stage 1 – Start ✓

Establishing “Customized Indices, ETFs and Depositary Receipts” Task Force

Customized Indices

Two Models for an OIC Index

“Dow Jones FEAS” and “Stoxx GT-30” would be two models for a customized OIC Index



Dow Jones **Indexes**



STOXX
creating success

Dow Jones FEAS Composite Index

Stated Objective

To measure the performance of stocks traded on exchanges that are members of the Federation of Euro-Asian Stock Exchanges (FEAS).

Key Features

- The index universe includes stocks traded on the exchanges in
 - 1- Abu Dhabi (UAE)
 - 2- Amman (Jordan)
 - 3- Bahrain
 - 4- Belgrade
 - 5- Bulgaria
 - 6- Istanbul (Turkey)
 - 7- Karachi (Pakistan)
 - 8- Macedonia
 - 9- Muscat (Oman)
 - 10- Zagreb (Croatia).
- Represents 95% of the float adjusted market cap. of each country.
- Number of companies: 367

Dow Jones FEAS Composite Index

Sub-indexes

The Dow Jones FEAS Middle East / Caucasus Index
currently includes stocks from:

Abu Dhabi – Bahrain – Jordan – Oman

The Dow Jones FEAS South East Europe Index
currently includes stocks from:

Bulgaria – Croatia – Macedonia – Serbia – Turkey

Customized Indices

Dow Jones FEAS Composite Index

Quick Facts

Component Number	: Variable
Weighting	: Float adjusted market cap.
Review Frequency	: Quarterly
Base Value/Base Date	: 100 as of December 31, 2004
Calculation Frequency	: End of Day
History Availability	: Available daily from Dec. 31, 2004
Date of Introduction	: June 4, 2009

Customized Indices

Dow Jones FEAS Composite Index

ICB Sector	Market Cap. (Mil. USD)	Weight (%)	No. Const.
Financials	188,159.40	55.90	
Telecommunications	33,727.32	10.02	
Consumer Goods	24,672.78	7.33	
Industrials	23,595.66	7.01	
Oil & Gas	23,326.38	6.93	
Basic Materials	18,546.66	5.51	
Consumer Services	14,305.50	4.25	
Utilities	7,977.42	2.37	
Health Care	2,019.60	0.60	
Technology	235.62	0.07	
Total	336,600.00	100.00	367

Data calculated in USD as of September 30, 2009.

Source: Dow Jones official web site (www.djindexes.com)

Customized Indices

Task Force and FEAS Members

OIC Member	Task Force	FEAS	FEAS Composite Index
Albania		✓	
Azerbaijan		✓	
Bahrain		✓	✓
Egypt	✓	✓	
Iran	✓	✓	
Iraq		✓	
Jordan	✓	✓	✓
Kazakhstan		✓	
Kyrgyz	✓	✓	
Malaysia	✓		
Oman	✓	✓	
Pakistan	✓	✓	✓
Palestine		✓	
Qatar	✓		
Turkey	✓	✓	✓
United Arab Emirates	✓	✓	✓
Uzbekistan		✓	

Customized Indices

Greece & Turkey 30 Index (GT-30)

Stated Objective

A customized index independently calculated by STOXX Ltd to provide market participants with access to the Greek and Turkish securities market.

Key Features

- The index captures approximately 70% of the market capitalization of the companies listed in the two markets.
- Price and Total Return Indices are available.
- The index is calculated in two different currencies (EUR & TRY).
- The index will be used as an underlying for the creation of financial products such as Exchange Traded Funds (ETFs).

Customized Indices

Greece & Turkey 30 Index (GT-30)

Key Features

- The index is calculated in accordance with the Industry Classification Benchmark (ICB).
- The index is calculated with the Laspeyres formula, which measures price changes against a fixed base quantity weight.
- The index is managed according to a transparent and public set of index rules in accordance to the current STOXX methodology (DJ STOXX Index Guide).
- Real-Time data dissemination is available via CEF Feed (Deutsche Bourse system) to all data vendors. Real-Time feed every 15 seconds for Price Indices and End of Day prices for Total Return Indices.

Greece & Turkey 30 Index (GT-30)

Specifications

Index Universe	: DJ STOXX TMI Greece and DJ STOXX TMI Turkey
Number of Constituents	: 30 (fixed), 15 from each market
Currency	: EUR & TRY
Base Date	: December 31, 2005
Base Value	: 1,000.00 points
Investability Screen	: Free Float restriction > 20%
Cap Factor	: 10% quarterly adjusted in March, June, September and December
Weighting Scheme	: Full Market Cap
Sector Limitations	: Maximum of 4 banks from each country can be selected

Customized Indices

Greece & Turkey 30 Index (GT-30)

Specifications

- | | |
|----------------------------|--|
| Review Dates | : Semi-annually in March and September |
| Replacement | : Country to country |
| Calculation Days | : When Dow Jones STOXX Indices are calculated |
| Calculation Time | : During the official trading hours of Dow Jones STOXX Indices |
| Dissemination Freq. | : Price Indices real-time every 15 seconds and Total Return Indices by the end of day |
| Currency Rates | : The mid between the latest real time bid and ask prices from WM fixed exchange rates |

Customized Indices

Greece & Turkey 30 Index (GT-30)

ICB Sector	Market Cap. (Mil. USD)	Weight (%)	No. Const.
Financials	114,299.11	57.34	11
Telecommunications	23,952.16	12.02	2
Consumer Goods	19,999.19	10.03	5
Consumer Services	13,672.87	6.86	3
Oil & Gas	11,330.55	5.68	4
Utilities	5,194.10	2.61	1
Basic Materials	4,981.29	2.50	1
Industrials	4,187.36	2.10	2
Health Care	1,732.07	0.87	1
Total	199,348.70	100.00	30

Depository Receipts

Depository Receipts (DRs) are negotiable instruments issued by depository banks evidencing the ownership of shares in a foreign company (ADRs, GDRs).

Local Depository Receipt Programs (LDRs):

Extend the ADR concept to markets globally
Brazilian Depository Receipts (BDRs, in 2002).

Global Depository Notes (GDNs):

Debt security versions of DRs.

The underlying is a domestic bond.

Outstanding GDNs: 7 (Issuer: The Republic of Peru)

Global Depository Sukuk (GDS):

The underlying is a “SUKUK”.

Depository Receipts

DRs make it possible for transactions to take place with foreign securities without bearing the difficulties in direct trading encountered on the international markets, which can be complex and costly;

- different operational systems,
- language barriers,
- regulatory questions,
- insufficient information regarding the issuer company,
- different time zones, settlement procedures and diverse exchange regulations,
- high commission costs of intermediaries etc.

** Bovespa Empresas, Brazilian Depository Receipt*

Depository Receipts - Categories

- In terms of the participation of the company that issued the shares, there are two categories of DRs:
 - Sponsored (Level I, II or III)
 - formal agreement between the issuer and the depository,
 - sole depository bank
 - Unsponsored (only Level I)
 - set up without the company's participation,
 - no formal agreement between the issuer and the depository,
 - no regulatory reporting requirements,
 - issued in accordance with **market demand**,
 - Multiple depository banks can co-exist for the same issuer.
The depository will provide most of the corporate action services.

Depository Receipts Trends



- Increased use of DRs as a preferred vehicle for cross-border transactions.
- DR trading volume increased to 56.5 billion during the first 5 months of 2009 vs. 51.8 billion during the same period in 2008 (increase 9%)
 - ADRs: +11% (5.4 billion, driven by Vale, Petrobras, Cemex, Taiwan Semiconductor, Itau, Satyam Computers)
 - GDRs: -15% (575 million, driven by lighter activity in Russian names: Gazprom, Surgutneftegaz, JSC VTB Bank)

Source: Citibank, Cross-Border Trends and Solutions in Issuer Services, Istanbul, Turkey, August, 2009.

Shari'ah Compliant (Islamic) Depository Receipts

- Local DR platforms can be used as a model for Shari'ah compliant DRs.
- Main Points:
 - The underlying should be a transferrable Shari'ah compliant instrument traded on the stock exchanges of an OIC member country.
 - A common monetary unit should be used for the IDR (i.e Euro)

Shari'ah Compliant (Islamic) DRs

Many companies that have DR programs are considered Shari'ah compliant:

<u>Company</u>	<u>Exchange</u>	<u>DR Category</u>	<u>Home Country</u>
Ericsson	NASDAQ	ADR	Sweden
Nestle S.A.	OTC	ADR	Switzerland
Samsung Electronics	London SE	GDR	Korea
Tata Motors	NYSE	ADR	India

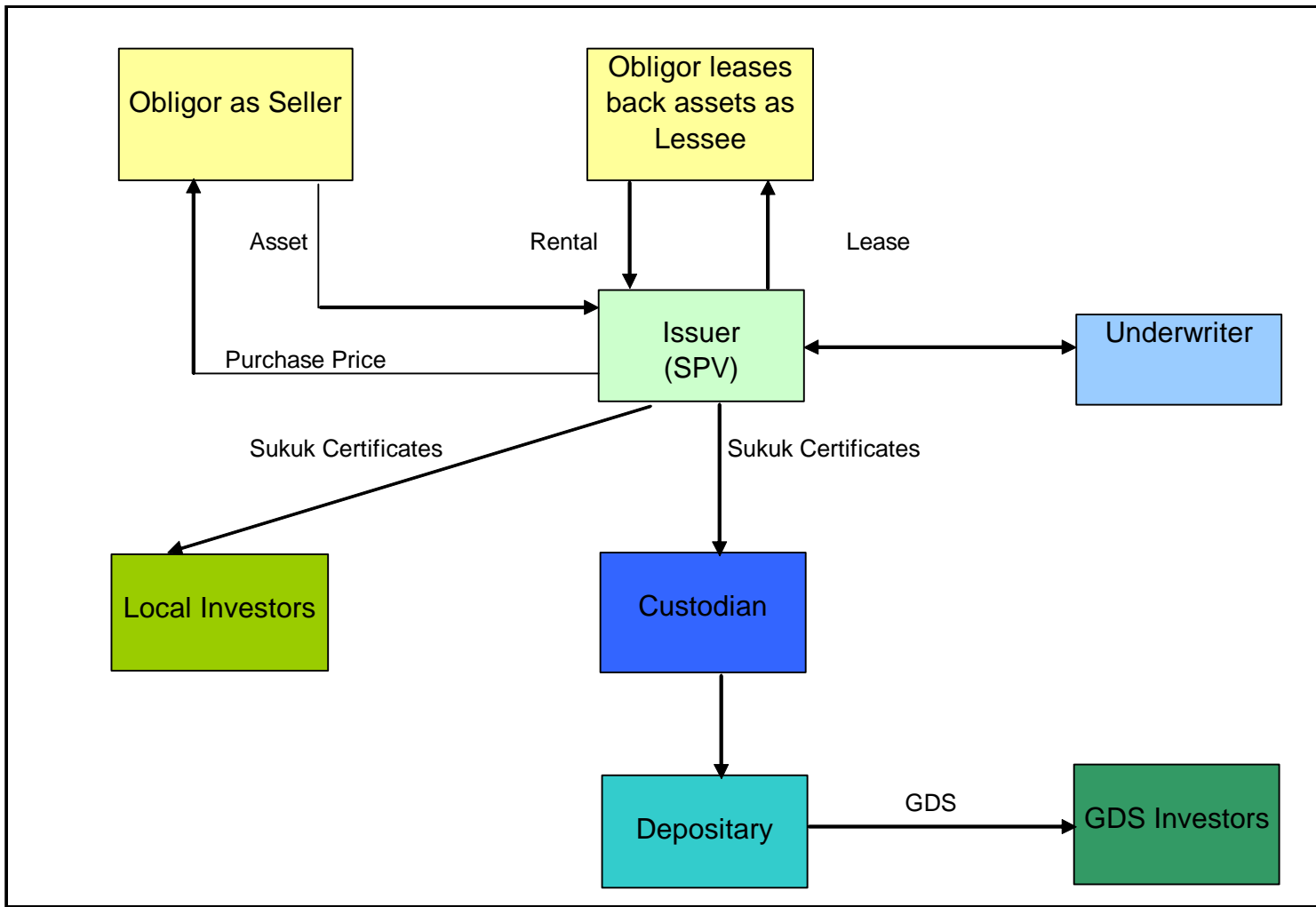
Source: Citibank DR Universal Issuance Guide

Islamic DRs- Companies from Eligible Sectors

(based on the answers to 1st Questionnaire in Feb.)

Country	Stock Exchange	Company	Market Cap. (as of 31.12.2008, Mil. USD)
Turkey	Istanbul SE	Turk Telekom	8,009.47
		Enka Insaat	4,142.83
		Eregli Demir Celik	3,112.45
		Tupras	2,667.71
		BIM Magazacilik	1,609.64
Jordan	Amman SE	Jordan Phosphate Mines	2,062.76
		Jordan Telecom	1,699.58
		The Jordan Cement Fact.	549.88
		Jordan Petroleum Refinery	309.62
		Jordan Electric Power	301.13
Qatar	Doha SE	Qatar Telecom	4,409.54
		Nakilat	3,321.16
		Electricity and Water	3,061.42
		Qatar Navigation	1,189.84
		Qatar Shipping	1,132.59
Egypt	The Egyptian Exc.	Orascom Construction Ind.	5,501.01
		Telecom Egypt	5,074.40
		Orascom Telecom Holding	5,008.38
		Egypt Co. For Mobile Serv.	2,684.83
		El Ezz Aldekhela Steel	1,962.35
Pakistan	Islamabad SE	OGDC-Oil and Gas Dev.	1,164,299
		Pakistan Petroleum Ltd.	363,234
		Pakistan Telecom. Co.	322,594
		Pakistan State Oil Co.	162,588
		Pakistan Oilfields Ltd.	96,793
Iran	Tehran SE	Isfahan Mobarekeh Steel	3,077
		Iran Nat. Copper Ind.	1,689
		Chadormalu Mineral & Ind.	1,543
		Gol-E-Gohar Iron Ore Co.	1,342
		IRI Shipping Lines	1,337

Global Depository Sukuk (GDS)



Source: Citibank, Cross-Border Trends and Solutions in Issuer Services, Istanbul, Turkey, August, 2009.