Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)

Proceedings of the 11th Meeting of the COMCEC Financial Cooperation Working Group

“Islamic Fund Management”

COMCEC COORDINATION OFFICE
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PROCEEDINGS OF THE 11TH MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP ON

"ISLAMIC FUND MANAGEMENT"

(October 25th, 2018, Ankara, Turkey)

COMCEC COORDINATION OFFICE
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Introduction

The 11th Meeting of the COMCEC Financial Cooperation Working Group was held on October 25th, 2018 in Ankara, Turkey with the theme of "Islamic Fund Management". The representatives of 19 Member States, which have notified their focal points for the Financial Cooperation Working Group, attended the Meeting. Representatives of COMCEC Coordination Office, SESRIC, Secretariat of OIC Member States' Stock Exchanges Forum, Secretariat of the COMCEC Capital Markets Regulators Forum, Al Meezan Investment Management Limited and Katılım Emeklilik have also attended the Meeting.[1]

At the outset, the representative of the COMCEC Coordination Office informed the participants about the financial outlook of the OIC Member Countries. It was followed by the presentations made by representatives of ISRA and RAM Ratings on the Islamic Fund Management.

The participants elaborated the Islamic fund management by focusing on the research report titled "Islamic Fund Management".

The Representatives of the Member States shared their experiences, achievements and challenges on Islamic Fund Management in their respective countries. The participants had the chance to discuss the policy options for enhancing the cooperation in this important field in a moderation session.

The efforts exerted by the private sector on Islamic finance were also reflected tothe discussions.

[1] The list of participants is attached as Annex 1.

1. Opening Session

In line with the tradition of the Organization of the Islamic Cooperation (OIC), the Meeting started with the recitation from the Holy Quran. At the outset, Mr. Selçuk KOÇ, Director at the COMCEC Coordination Office, briefly mentioned about the COMCEC and its activities as well as the Programme of the meeting.

Mr. ESSA DRAMMEH, Second Deputy Governor at the Central Bank of the Gambia, as the Chairperson of the Meeting, introduced himself, thanked all the participants, and made a short opening speech.

2. Financial Outlook of the OIC Member Countries

Mr. Cezmi ONAT, the financial sector specialist at the COMCEC Coordination Office, presented the main findings of the Financial Outlook of the OIC Member Countries 2018. Mr. ONAT expressed that the presentation consists of three chapters: recent global economic and financial developments; financial developments in the OIC countries; and Islamic finance.

In the first part of the presentation, Mr. ONAT provided an overview of the global economic developments and economic growth in the OIC member countries. In this context, GDP growth rates have been analyzed by world regions to understand the latest developments in the world markets. Mr. ONAT highlighted that, based on the World Bank Global Prospects Report, global growth remained relatively robust and is projected to reach 3.1% percent in 2018. The projected global growth will be moderate in 2019-20, edging down to 2.9% percent by 2020. OIC Countries growth performance was analyzed based on income levels according to World Bank Income Grouping Methodology.. The OIC countries growth rate slightly decreased to 3% in 2017, as compared to 3.2% in 2016. However, positive growth prospects are expected for the OIC countries for the next two years. The growth rate of the OIC countries expected to increase to 3.5% in 2018 and 3.7% in 2019.

In the second part of the presentation, Mr. ONAT provided an assessment of financial developments of the OIC member countries. He stated that in this section, World Bank's Global Financial Development Database was utilized. The report and presentation provided four main measures of the financial systems. These measures are (1) Financial Access: the degree to which individuals can and do use financial institutions and markets, (2) Financial Depth: the size of financial institutions and markets, (3) Financial Efficiency: the efficiency of financial institutions and markets in providing financial services, and (4) Financial Stability: the stability of financial institutions and markets.

Mr. ONAT stated that the OIC Member Countries have been categorized in four major groups for analyzing them according to the World Bank Income Grouping Methodology: OIC-Low income group; OIC-Lower middle-income group; OIC-Upper middle income; and OIC-High income group. All these groups along with the OIC average and world average has been analyzed by using the following indicators under the measures of depth, access, efficiency, and stability: Mr. ONAT stated that the analysis revealed that OIC-Upper middle income and OIC-High income groups were equal to or above world averages in the basic indicatiors regarding above mentioned four measures whereas OIC-Low income group and OIC-Lower middle-income groups were below the world averages.

In forth and the last part of the presentation Mr. ONAT shared information on Islamic finance. He stated that Islamic finance as an effective tool for financial development worldwide became an inseparable part of the international financial system. Islamic finance has the potential to help in addressşing the challenges of ending poverty and sharing prosperity. Mr. ONAT mentioned that data used in this chapter was collected mainly from International Financial Services Board's (IFSB) reports, International Islamic Financial Market (IIFM) reports, Thomson Reuters Islamic Finance Development Report. The Islamic finance industry assets grew 8.3% and assets value surpassed USD 2 trillion in 2017. The global Islamic financial services industry has continued to sustain its resilience with most of its indicators complying with minimum international regulatory requirements. The main growth drivers were sukuk issuances and Islamic funds.

Mr. ONAT expressed that in terms of the breakdown of Islamic finance assets by regions, the Gulf Cooperation Council (GCC) region continued as the largest region but the share of GCC slightly decreased in 2017. Asia has the most improved market share with expansions in key markets such as Malaysia, Indonesia and Pakistan. It is highlighted during the presentation that Islamic banking is the biggest segment of the Islamic finance industry and its assets valued around USD 1.56 trillion in 2017 representing approximately 76% of the industry's total assets. The sukuk market continued to grow and a few new jurisdictions have issued sovereign sukuks in 2017. Global sukuk issuances have increased to USD 116.7 billion in 2017. He also touched on developments regarding Islamic funds as the other commonly used Islamic capital market instruments. The number of Islamic funds decreased in 2017, but assets under management increased by 19 percent to USD 67 billion. The two key domiciles for Islamic funds are Saudi Arabia and Malaysia. Mr. ONAT also stated that global takaful industry continued its upward trend in many countries and gaining popularity in recent years. The global takaful contributions reached to USD 26 billion in 2016.

Question(s) and Comment(s):

Comment:

- It was expressed that the Outlook can include a recommendation part based on the analyses of the OIC countries made in its various sections. It was also indicated that the Outlook needs to be updated.

Answer:

- It was stated that a recommendation part may be added in the furture Outlook Documents. In adition, the participants were informed that the Financial Outlook Report would be updated soon and the updated version would be available on the COMCEC web page before the 34th Session of the COMCEC.

3. Overview of Islamic Fund Management

Dr. Marjan MUHAMMAD, Head of Research Quality Assurance Office, International Shari'ah Research Academy for Islamic Finance (ISRA) presented Part 1 of the research report, which covers Chapters 1, 2 and 3, titled "An Overview of the Islamic Fund Management Industry". At the outset, Dr. MUHAMMAD briefly outlined the scope of her presentation that covers 3 areas: (i) Introduction; (ii) Global development of the Islamic fund management industry; and (iii) A comprehensive analysis of the Islamic fund management industry from various aspects including infrastructure, investment and commercial consideration.

Dr. MUHAMMAD clarified the main objective of the research, i.e. to examine the working mechanisms, development, challenges and prospects of the Islamic fund management globally as well as in country-specific case studies. The study covers 3 main areas:

1. Analysis of the historical development, theoretical nature, legal and regulatory aspects of Islamic funds, along with the debates on and interpretation of various schools and jurisdictions. In addition, the differences and similarities between Islamic fund management and its conventional counterpart are highlighted.
2. Identifying key building blocks for the long-term growth of Islamic fund management industry and examine the structures and working mechanisms of various types of Islamic funds as well as the specific issues and challenges encountered in the further development of this sector.
3. Undertaking country-specific case studies to present the current status of the Islamic fund management industry in those jurisdictions, alongside the issues faced by each jurisdiction and the recommended best practices to be adopted to enhance the development prospects of Islamic fund management.

Dr. MUHAMMAD explained that the study adopts the qualitative methodology which relies on desktop research that involves the review of written literature, information, documents, country experiences, practices and works of relevant international institutions, and open sources of relevant national institutions; data analysis of industry and economic reports and macroeconomic data; and analysis of raw data obtained from Bloomberg and Eikon-Thomson Reuters terminals to assess information on the market shares of various segments in the Islamic financial markets. Data published by international institutions such as the World Bank, the Islamic Development Bank (IDB), the Islamic Financial Services Board (IFSB) and others have also been referred to. In addition, the study utilizes semi-structured interviews which were conducted via face-to-face meetings and phone calls with key informants such as regulators, policymakers, fund managers, investors and others.

Dr. MUHAMMAD highlighted that the Islamic asset management industry has been posting significant growth since the late 1980s, both in terms of the number of funds and AuM. Reports indicate that the industry expanded from about 800 Islamic funds in 2008 (IFSB, 2017) to 1,161 as at end-2017, accounting for some USD66.7 billion of AuM as at end-2017 (IFSB, 2018). Nonetheless, this sector represents only a small percentage (about 3%) of the total Islamic finance assets of USD2.05 trillion as at end-2017—with the Islamic finance industry is mostly dominated by the Islamic banking sector (representing 76% or USD1.6 trillion of total assets) and sukuk (19.5% or USD399.9 billion of total assets).

She also explained that the top five jurisdictions accounted for 88% of the industry's AuM as at end-2017, i.e. Saudi Arabia (37.10%), Malaysia (31.66%), Ireland (8.62%), the US (5.25%) and Luxembourg (4.76%). This indicates that the operations of Islamic funds are still limited as key Islamic finance jurisdictions have deep-rooted Islamic banking sectors. In terms of the growth of Islamic funds by asset class, they were dominated by equity-based funds (42%) as at end-2017, followed by money market funds (26%) and commodity-based funds (14%). The other significant asset classes include fixed-income funds (sukuk) (10%), mixed-allocation funds (7%)

Dr. MUHAMMAD defined the fund management by explaining that it involves a group of investors channeling their surplus money to a legal entity known as a 'fund', which pools the collected funds and invests it in a diversified portfolio of securities and other assets to achieve specific financial goals. Investors, usually known as shareholders or unitholders, can be individuals or institutions. She explained that the legal entity that professionally manages the funds and undertakes the investment on behalf of the investors is known as a fund manager or fund management company. The fund manager handles the clients' investments, establishing a portfolio of assets constituting securities such as stocks, bonds, money market instruments, a combination of these or even other funds. The fund's portfolio of investments is structured and maintained to match its investment objectives, as stated in its prospectus. The investment generates returns which are passed back to investors or retained for reinvestment.

She further summarized the similarities and differences between Islamic and conventional funds:

1. Islamic investment funds are similar to conventional funds in terms of the common objectives that they share, such as pooled investment, capital preservation and returns optimization.
2. The distinguishing feature between the two types of funds is that Islamic funds must always comply with Shariah rules and laws in terms of their operations, activities and investments.
3. Islamic fund management is therefore about the professional management of investors' money in Shariah-compliant securities and assets, in line with Shariah principles to achieve set financial goals. Elements such as the contractual relationship between fund managers and investors, Shariah screening of investments, the role of Shariah boards, Shariah governance mechanisms involving Shariah reviews and audits, purification of impure income and alms-giving (*zakah*) calculation are important in the adherence of Islamic funds' activities to Shariah requirements.

Then, Dr. MUHAMMAD delineated the following 5 stages of developing or establishing an Islamic fund:

1. **Conceptualization:** Investment analysis – identifying target investors, Shariah assets (equities, sukuk, money market), Shariah screening and benchmark (Dow Jones, S&P, AAOIFI), and investment strategy (passive, balance, aggressive).
2. **Planning:** Financial analysis – selection of the asset class, quantitative measure of risks and returns, defining Shariah compliance procedures and purification processes.
3. **Regulatory approval:** Submission – adhering to the local requirements, guidelines and policies, submission for the approval and proactive engagement with regulators

4. **Implementation:** Portfolio development – implementation of investment strategies, Shariah review and audit, the appointment of professional managers (Shariah advisors, trustee, legal advisors, auditors, tax consultants).
5. **Monitoring:** Performance analysis and portfolio review – performance measurement, peer benchmarking, review of Shariah compliance (e.g. Shariah compliant stocks), implementing purification process (if required), performing compliance and audit reviews, reporting and strategy update based on market condition.

Furthermore, she explained 6 key Shariah requirements of an Islamic funds:

1. **Shariah board/advisor:** To appoint a Shariah board or advisor that monitors, evaluates and ensures that the fund's activities comply with Shariah principles, particularly on the investment aspects. The Shariah board/advisor also provides guidance to the board of directors and the managers of the fund. Rulings issued by the Shariah board are binding on the fund and its manager.
2. **Shariah audit/review:** To conduct an annual audit or review on the fund to ensure its compliance with Shariah principles. This exercise can be undertaken by either the Shariah board/advisor or a recognized and qualified third party.
3. **Shariah-compliant investment:** To only invest in Shariah-compliant assets or portfolios, which are determined through a screening process.
4. **Shariah screening:** To identify whether the companies that Islamic funds invest in partake in Shariah non-compliant activities (i.e. business screening) or if the financial management of the companies involves interest-based borrowings or have excessive cash or receivables in their statements of financial position (i.e. financial screening).
5. **Purification of income:** To cleanse the fund of any non-compliant income generated from investments in companies that have exceeded the tolerable benchmark of the Shariah screening process. The non-compliant amounts should be donated to charitable organizations approved by the Shariah board/advisor.
6. **Custody:** To ensure Islamic funds' assets are placed in a Shariah-compliant instrument.

In addition, she highlighted key parties involved in Islamic fund management and their key roles, as follows:

1. **Investors/Unitholders:** Providers of funds through the purchase of unit trusts.
2. **Asset management companies:** Promoter of the fund. Responsible for investing the funds through expertise
3. **Shariah advisor/Board:** Advice on the overall structure and documentation of the fund to comply with Shariah
4. **Trustee:** Provide adequate supervision over the fund manager
5. **Distributor:** Acts as an agent to the asset management company to sell unit trusts to customers
6. **Regulator:** Formulates guidelines and regulation for the operation of unit trust funds

Next, Dr. MUHAMMAD talked about the roles of fund management from various perspectives:

1. **Macroeconomic:** Promoting savings and investment, circulating capital in the real economy, providing liquidity to sovereigns, institutions & individuals, and contributing to economic development and growth.
2. **Microeconomic:** Economies of scale enabling a wide range of investments not possible for individual investors, professional management services at lower cost, lower risk through diversification, liquid investments and ease of transaction, and good financial returns over the long term.
3. **Islamic capital market:** Providing retail investors an access to capital markets, contributing to financial market efficiency, and supplying an efficient avenue for capital recycling.
4. **Islamic:** Shariah-compliant screening and monitoring of investments, and Shariah governance in the form of reviews and audits throughout the management process.

Dr. MUHAMMAD continued her presentation by presenting 5 key building blocks to sustain the long-term growth of Islamic fund management:

1. **Pillar 1: Legal, regulatory, supervision and Shariah framework.**
2. **Pillar 2: Development of institutional funds**
3. **Pillar 3: Liberalisation of policies and guidelines**
4. **Pillar 4: Tax framework**
5. **Pillar 5: Market infrastructure.**

These 5 core pillars should also be supported by other measures, including healthy microeconomic conditions, political will and cohesive collaboration with key stakeholders, robustness of Islamic capital market activities, captive demands for Shariah compliant assets and investments, and awareness and capacity building.

Then, Dr. MUHAMMAD presented a comparison of Shariah screening methodologies adopted by the Shariah Advisory Council of Securities Commission Malaysia (SAC of SC), S&P Dow Jones Shariah Indices, MSCI Islamic Index and FTSE Shariah Global Equity Index Series from different aspects, namely: scope, screener, focus, dividend purification ratio and financial ratio. Moreover, she shared an example of an Islamic equity fund screening process in Malaysia.

Thereafter, Dr. MUHAMMAD proceeded by analyzing of various types of funds by investment portfolio, i.e. equity funds, fixed-income funds, balanced funds, money market funds, REITs, ETFs and alternatives. She also presented a basic structure of some of these funds and an example of an investment process adopted by certain fund management companies.

Finally, Dr. MUHAMMAD highlighted 5 key issues and challenges facing the Islamic fund management industry, namely:

1. **Legislative framework:** Lack of recognition and transparency, and inadequate disclosure.
2. **Talent and technology:** Lack of talented human capital and issues in adapting to fintech.
3. **Scalability:** Achieving a minimum level of scale efficiency.
4. **Investible assets:** Lack of investment opportunities and Shariah-compliant financial assets.
5. **Reclassification of securities:** Shariah-compliant portfolio might become non-compliant; hence, monitoring a stock's compliance with Shariah is a challenge for Islamic fund managers.

Question(s) and Comment(s)

Question: AAOIFI has issued standards on Shariah screening methodology. However, very few countries have adopted the methodology due to its impracticalities. What are the measures needed to address this issue?

Answer: Dr. MUHAMMAD explained that AAOIFI is currently revising most of its Shariah standards. This is one of the areas that AAOIFI needs to look into, particularly on the financial screening benchmark where currently it is based on the total market capitalization, as opposed to some index providers which use total assets as the denominator. Using total market capitalization would expose to more volatility in comparison to the total assets which are more stable.

Question: One of the key pillars of the building blocks to sustain the growth of Islamic fund management industry is tax framework which promotes tax neutrality and incentives to Islamic funds players: investors and asset management companies (AMCs). Would this approach lead to discrimination between Islamic and conventional funds?

Answer: Dr. MUHAMMAD argued that some Islamic financial instruments attract higher taxes due to buy and sell activities. Hence, tax neutrality provides a level-playing field between Islamic and conventional instruments instead of discriminating between the two.

Question: Who should pay *zakah* in Islamic funds: the fund or investors/unit holders?

Answer: Dr. MUHAMMAD clarified that scholars have different opinions on who should pay *zakah*. Most scholars view that *zakah* is the obligation of the individual unit holder/investor. Upon selling the fund or receiving dividends, the investors must pay *zakah* if they have owned the wealth for one lunar year (*hawl*), and the amount received reaches the 'zakatable' amount (*nisab*). This opinion has been widely accepted and practiced worldwide. In contrast, very minority scholars argue that Islamic funds, as legal entities, should pay *zakah*.

4. Selected Case Studies and Policy Options

Ms. Ruslena RAMLI, Head of Islamic Finance, RAM Ratings, presented the findings of Chapters 4, 5 and 6 of the research report. The first level analysis includes an evaluation of the case country's contribution to global Islamic fund industry in terms of AuM, number of Islamic funds launched, development of policies and guidelines, and level of Islamic finance activity. The results gave initial insights to categorize the case country studies according to: 1) matured; 2) developing; and 3) infancy. Under 'developing' we added sub-categories of 'advanced' and 'intermediate' to refine our research in depicting a clearer picture of the country's level of market activity. In-depth analysis of the selected case countries highlighted the issues and challenges related to the investment of funds (buy side) and the development of funds (sell side).

Ms. RAMLI proceeded to share the findings of the report's first level analysis. Starting with Malaysia, the country's AuM contributed 31.7% (or USD36.5 billion) and ranked No. 2 based on percentage to total global Islamic fund of USD105.5 billion. Supported by the country's advanced Islamic financial market its Islamic fund management has been charting strong growth. Malaysia was chosen as a country case study due to the following factors:

1. Level of its Islamic financial market development and recognizable market share in global Islamic banking, ICM and takaful.
2. Operates within a well-established and facilitative regulatory environment benchmarked to the IOSCO principles, supported further by its Shariah governance and tax frameworks.
3. Clear methodology and guidelines on Shariah screening.
4. The robust performance of its ICM has contributed significantly to a sustainable supply of investable Shariah-compliant assets.

Similarly, Pakistan's Islamic fund management AuM contributed 2.3% (or USD2.4 billion) and ranked No. 9 based on percentage of AuM to total global Islamic fund. The selection of Pakistan as a country case study in assessing the development of Islamic fund management industry was based on the following:

1. Pakistan's growth in the overall Islamic finance industry at the global level.
2. Pakistan is considered a developing market in Islamic finance.and has a strong untapped demand base for Shariah-compliant investments.

South Africa was the next country chosen due to its budding potential to inculcate Islamic finance into its financial landscape. The country's AuM contributed 2.4% (or USD2.5 billion) and ranked No. 8 based on percentage to total global Islamic fund. The inclusion of South Africa as a case study was supported by:

1. Its unique value proposition is envisaged to encourage other non-Muslim countries to consider the benefits of encouraging the development of their own Islamic finance markets.
2. Given the level of development of its conventional financial system, South Africa has a competitive edge over most African countries in actively capturing and promoting the Islamic finance industry.

Morocco is a newcomer to the Islamic finance industry. The country was chosen to show the difference in landscape and what are the necessary pillars required to strengthen its foundation. Factors to support its inclusion as a case study were based on:

1. Morocco is an emerging market in the MENA region, which recently started promoting Islamic finance. The country enjoys strong government support in achieving its vision of developing the various segments of the Islamic finance market.
2. The equity market in Morocco meets the 'infancy' criteria of a low level of development for conventional and Islamic funds.
3. Morocco's access to data is deemed relatively easier.

Ms. RAMLI further explained that once a deeper understanding of the case country studies' Islamic fund management were obtained, the study found that the building blocks to sustain long-term (LT) growth of an Islamic fund industry can be grouped into several benchmarks these include, 1) legal, regulatory, Shariah framework and market supervision; 2) development of institutional funds; 3) liberalization of policies and guidelines; 4) tax framework; and 5) market infrastructure. The lessons learned from the respective case studies were summarised in a '**Development Stage Matrix**' (DSM). She further highlighted the development of a masterplan/framework is important to ensure the pillars are successfully incorporated. Based on the team's analysis, each market developed differently and having a structured approach on how to implement the necessary pillars (or execution of strategies) will ensure a viable future for Islamic fund management.

The DSM has several benefits: 1) it facilitated a comparative analysis of the variables that have had the most impact or affected the growth of a domestic Islamic fund market; 2) by using the matrix, any country can be classified into matured, developing or infancy based on the variables that exist or is absent from its domestic market; 3) upon in-depth analysis of whether the variables have helped or without it impedes the development of a domicile fund industry the team was able to identify the potential issues and challenges faced. Ms. RAMLI also explained that under 'developing' sub-categories of 'advanced' and 'intermediate' were added to refine our research in depicting a clearer picture of the country's level of market activity.

Upon understanding the factors that had exerted the greatest impact, we were able to create an ecosystem for the Islamic fund management industry. Accordingly, recommendations were proposed to address the issues and challenges faced by the respective markets, depending on their level of progress. These key findings were then accordingly ranked using a **Four Quadrants Chart** and **Spider Web Chart.**

Ms. RAMLI highlighted, the purpose of the **Four Quadrants Chart** was to determine based on market development which category would the countries fall under.

1. **Category A** – Rapid market growth and strong competitive position of Islamic fund management industry. They face challenges in their efforts to continue building on their success while ensuring Islamic finance remains central to the development of their capital markets as they evolve (e.g. Malaysia, Pakistan).
2. **Category B** – Slow market growth and strong competitive position of Islamic fund management industry. They face challenges in trying to bring their Islamic fund management industry on to a level playing field vis-à-vis the conventional segment. The existing infrastructure may, however, be helpful in making the industry competitive relative to its conventional counterpart. The improvement of macroeconomic conditions is crucial

towards driving the growth.

3. **Category C** – Rapid market growth and weak competitive position of Islamic fund management industry. This is applicable to countries with an expanding Islamic fund management industry, but which is still relatively small compared to the overall industry.
4. **Category D** – Slow market growth and weak competitive position of Islamic fund management industry. This requires the fundamental enhancement of the infrastructure of the Islamic fund management industry infrastructure (e.g. South Africa, Morocco).

Ms. RAMLI proceeded to further explain the variables developed under the DSM were scored based on its level of impact on the country's Islamic fund management. The team then used the '**Spider Web Chart**' to depict the findings of the report - 1 denoting the lowest impact and 5 denoting the highest impact. From the charts, a clearer picture of a matured market vis-à-vis an infancy market was shown which also highlighted the areas of potential issues and challenges faced by the country's Islamic fund industry. Ultimately, as a country's domicile Islamic capital market matures over time the scoring for Islamic fund management should also advance to form a perfect score of 5. Upon understanding these key factors, the team was able to make the necessary policy recommendations to facilitate the Islamic fund industry's next stage of growth.

Ms. RAMLI accordingly shared the report's policy recommendations specific to the case country studies that were proposed in line with the findings of the DSM, four quadrants chart and spider web charts. The policy recommendations encapsulate efforts to improve/strengthen the five core pillars, as well as address issues and challenges related to the investment of funds (buy side) and development of funds (sell side).

Malaysia - Based on the spider chart, there is room for further improvements with regards to transparency of transaction cost, diversification of investor base, product innovation. Accordingly, to address the gaps the recommendations proposed include:

Buy-side	Sell-side
1. Continuous enhancement of financial literacy, education and awareness program for retail investors. 2. Strengthening Malaysia's value proposition as an international hub for SRI funds. 3. Facilitating new digital business models and seamless interaction with mass affluent investors.	1. Enhance regional collaboration for cross-border offerings. 2. Earmarking of institutional funds for Shariah-compliant investment or SRI investing. 3. Advance Malaysia's position as a hub for investment support services.

Pakistan - Credit is given to Pakistan's regulators for their concerted efforts to improve the guidelines and policies governing its Islamic finance management. Nevertheless, gaps include diversification of investor base, product innovation, the growth of its Islamic finance industry, etc. The following recommendations are proposed for Pakistan to address its Islamic funds industry:

Buy-side	Sell-side
1. Lack of awareness among retail investors about Islamic funds as a tool for savings and investment.	1. Limited Shariah-compliant investment avenues and product innovation.

2. Limitation of third-party distributions. 3. Taxation issues.	2. Limited foreign investors. 3. Capacity building in Islamic fund management.

South Africa - South Africa's robust banking system and healthy capital markets depict its budding potential to inculcate Islamic finance into its financial landscape. Due to its relatively developed Islamic finance market, the following recommendations were proposed:

Buy-side	Sell-side
1. Lack of market awareness and understanding of Islamic finance. 2. Government and private sector employees are not given the flexibility to choose the type of pension. 3. Lack of incentives to encourage Shariah-complaint savings and investment.	1. Lack of Shariah-compliant listed companies. 2. Absence of a harmonized approach among the Shariah advisor committee. 3. Shortage of experts in Islamic finance industry.

Morocco - Concerted efforts by regulators to introduce Islamic finance into Morocco's financial landscape is slowly being realized. Due to its infancy stage key pillars have yet to be developed. Hence, recommendations to strengthen the market's foundation include:

Buy-side	Sell-side
1. Market education and awareness. 2. Fintech solutions. 3. Develop a national savings strategy.	1. Shariah governance framework. 2. Develop masterplan and include standards on Shariah screening approaches, income purification and *zakah* processes. 3. Shortage of experts in Islamic finance industry.

Ms. RAMLI summarized the team's findings by illustrating, apart from the core pillars, the establishment of inherent demand for Shariah assets coupled with a sustainable pipeline of Shariah assets will in the long-run promote the viability of Islamic fund management. The establishment of all these factors will help effectively create a strong ecosystem for an Islamic fund management to thrive.

In concluding the presentation, Ms. RAMLI outlined the general policy recommendations to support the development of a sustainable Islamic fund management. Lessons learned from a country's progress in nurturing its own fund industry can be used as a benchmark to accelerate or jump-start another country's developmental efforts. Ultimately, a comprehensive masterplan/framework, encompassing development of a robust regulatory, market infrastructure and the building of both supply and demand is pertinent towards achieving a state of maturity.

Question(s) and Comment(s)

Question: What do you think about the performance of emerging markets (e.g. Malaysia) in light of the change to United States market rates, as well as the impact of FDIs.

Answer: Ms. RAMLI highlighted, based on recent market developments Bank Negara Malaysia (BNM) has reduced its GDP expectation to 5%, slightly lower from earlier projection of between 5.5% and 6% due to the impact of US's trade war with China. Private consumption is believed to be the driving force for domestic demand while private investment is set to slow.

With regards to FDIs into Malaysia, the market witnessed cyclicality leading up to the US Federal Reserve's rate hikes and when BNM stopped Ringgit trades in the offshore non-deliverable forwards market. However, the structural strength of the country in the banking sector and capital markets continue to underpin Malaysia's country rating of single rating of A- (S&P), A3 (Moody's) and A- (Fitch).

Question: Concerning the development of a harmonized Shariah framework,is there any update with regards to the harmonization process?

Answer: Ms. RAMLI started by saying that based on her personal opinion it is difficult to adopt one harmonized Shariah standards due to the difference of opinion of Shariah advisors/scholars. In support of market growth, she proposes a 'standard market conduct' which will create a platform for market players and scholars to agree on a set of standard operating policies. She stated thatthis alternative effort is believed to be more palatable for a unified market practice.

Question: there was a question on enforcement of contractual rights to support investor protection, considering the different laws adopted by each country to support investors' protection.

Answer: Ms. RAMLI, gave Malaysia and South Africa as an example. Both countries adopt the common law in the creation of its legal documents. Additionally, Malaysia's capital market activities are governed by the Capital Market Service Act, which includes clauses that support investor protection. Similar regulations should also be introduced by countries to monitor and protect the commercial aspect of the Islamic fund industry.

Question: What has been the impact of inclusiveness of policies and guidelines to support the development of Islamic finance as well as the adoption of these policies and guidelines to the industry?.

Answer: Ms. RAMLI, proceeded to share the Malaysian experience. There have been concerted efforts by the government and regulators to make Malaysia an international finance center. Hence, specific benchmarks have been included in the financial masterplan to emphasize on the growth of Islamic finance e.g. Islamic banking assets to grow to 40% of total banking assets. How Malaysian banks have tried to support this agenda is by adopting an 'Islamic first approach' in the distribution of the bank's products and services. Ultimately, it falls back on the objectives of the government and regulators on whether to have a specific agenda for the development of its Islamic finance industry.

5. Policy Debate Session on the Improving Islamic Fund Management in the OIC Member Countries

The policy debate session was moderated by Mr. Ridzham Zaidi RAZUAN, Assistant General Manager, Securities Commission Malaysia. At the beginning of the session, Mr. Selçuk KOÇ, Director at the COMCEC Coordination Office, made a brief presentation on the responses of the Member Countries to the Policy Questions on Islamic Fund Management in the OIC Member Countries and introduced the Room Document including draft policy recommendations.

After extensive discussions, the Working Group has come up with the following policy recommendations.

- ***Policy Advice 1:*** *Development of Key Measures (developing masterplans, promotional activities, etc.) to Support a Viable Ecosystem for Islamic Funds*

- ***Policy Advice 2:*** *Development of a Robust Regulatory, Supervisory and Shariah Frameworks to Ensure Compliance, Growth and Protection of all Stakeholders' Interest particularly Investors'.*

- ***Policy Advice 3:*** *Encouraging Establishment of Institutional Funds to Increase Demand for Islamic Funds.*

- ***Policy Advice 4:*** *Encouraging the Development of a Facilitative Tax Framework to Secure Strong Commitments from Supply and Demand Sides to Promote Competitive Positioning for Islamic Funds.*

6. Utilizing the COMCEC Project Funding

Mr. Burak KARAGÖL, Director at the COMCEC Coordination Office, made a presentation on the COMCEC Project Funding. At the outset, a short video on COMCEC Project Funding has been showed to the participants. Afterward, Mr. KARAGÖL informed the participants about the essentials of the COMCEC Project Funding.

Mr. KARAGÖL continued his presentation by highlighting the timeline for the project submission. He stressed the importance of finding a project idea and informed the participants on how they can find project topics. He introduced the COMCEC Project Funding Webpage and invited the participants to check put the COMCEC Project Funding webpage.

Mr. KARAGÖL underlined the supported themes in financial cooperation area and shared brief information with participants regarding online project submission system. At the final part of his presentation, he informed the participants on the funded financial cooperation projects in 2018, namely Improving Financial Consumer Protection in the OIC Countries-Turkey and Training and Guidelines on SUKUK issuance- Nigeria.

Question(s) and Comment(s)

Question: Is there a budget limit for projects?

Answer: Mr. KARAGÖL stated that the project limit for the member countries is 250.000 USD while it is 100.000 USD for OIC Institutions. He underlined that member countries should provide 10% co-finance.

7. Member Country Presentations

7.1 Malaysia

Mr. Ridzham Zaidi RAZUAN, Assistant General Manager at Security Commission Malaysia, presented key highlights of Malaysia's Islamic Fund and Wealth Management Blueprint launched by the Securities Commission Malaysia on January 2017.

Mr. RAZUAN mentioned that the Islamic fund and wealth management as well as sustainable and responsible investment segments have been clearly identified as having significant potential to drive further growth of Malaysia's ICM and enhance its international competitiveness. In relation to this, an Islamic Fund and Wealth Management Blueprint was launched in January 2017. It charts the medium and long-term strategic direction for the industry as well as map out strategies and recommendations to strengthen the country's competitive edge.

Mr. RAZUAN underlined that the Blueprint is embodied by three mutually reinforcing strategies that act as the main strategic thrusts. The three strategic thrusts are strengthening Malaysia's positioning as a global hub for Islamic funds, establishing Malaysia as a regional centre for Shariah-compliant sustainable and responsible investment, and developing Malaysia as an international provider of Islamic wealth management services.

Mr. RAZUAN highlighted that eleven core recommendations have been identified to drive initiatives towards achieving these strategic thrusts which will pave the way to enhance international connectivity and develop global capabilities of Malaysia's service providers and market intermediaries.

- Thrust #1 Strengthen Malaysia's positioning as a global hub for Islamic funds

The emphasis of this strategic thrust is to widen the international base of the Islamic fund management industry by accelerating efforts to scale up the size of operations and offerings as well as strengthening international distribution capabilities. Given the increasingly global nature of investing and more sophisticated requirements of investors, critical aspects of expanding scale and distribution include greater regulatory co-operation and market connectivity with other jurisdictions and participants as well as enhancing the ability to tap specialised skill sets and access global products.

- Thrust #2 Establish Malaysia as a regional centre for Shariah-compliant sustainable and responsible investment (SRI)

In view of the commonalities in their underlying principles, there are opportunities for greater alignment between Islamic investing and SRI. However, both are at comparatively early stages of development and considerable effort will be required to unlock the substantial synergies between these two disciplines. Critically, this strategic thrust will focus on enhancing and strengthening the SRI ecosystem. Furthermore, it will mutually reinforce other strategies to promote Malaysia as a regional centre for sustainable investments. The development of the Shariah-compliant SRI market segment will, therefore, have the potential to attract greater domestic and international participation. This will broaden and deepen the Islamic fund and wealth management industry. nascent wealth management industry, accelerating and sustaining a significant asset management industry, and becoming the global hub for Islamic finance.

- Thrust #3 Develop Malaysia as an international provider of Islamic wealth management services

The Islamic wealth management industry is still at a nascent stage of development compared with other segments of the Islamic capital market. Malaysia, with its comprehensive Islamic finance ecosystem and track record in innovation, is in an advantageous position to play a lead role in shaping the concept and driving the development of Islamic wealth management services. Hence, this strategic thrust will focus on efforts to deepen and broaden the suite of Shariah compliant wealth management solutions while enhancing the supporting market infrastructure and creating a more conducive and enabling environment. In tandem with the second thrust, the provision of Islamic wealth management services will also aim to attract investors seeking SRI solutions. Efforts will be directed towards promoting and differentiating aspects of Islamic wealth management across the value chain of wealth generation, accumulation, preservation and distribution, including product and service innovation aligned to the tenets of the maqasid al-Shariah and utilization of waqf assets and structures.

Mr. RAZUAN expressed that eleven core recommendations have been identified to achieve these strategic thrusts as follows: 1. Provide enabling frameworks to support innovation in Islamic markets. 2. Enhance market access and international connectivity. 3. Develop a vibrant ecosystem to accelerate the growth of Shariah-compliant SRI. 4. Promote the growth of private equity. 5. Facilitate new digital business models, products and services for Islamic fund and wealth management. 6. Advance Malaysia's positioning as a hub for investment support services. 7. Spur institutional participation in Islamic funds. 8. Develop facilitative market infrastructure for Islamic wealth management. 9. Strengthen intermediation capabilities to support greater internationalization. 10. Fortify talent pipeline for Islamic wealth management. 11. Provide targeted incentives to strengthen international competitiveness.

7.2 Turkey

Mr. Erkan OZGUC, Deputy Head at Institutional Investors Department in Capital Markets Board of Turkey (CMB), made a presentation on "Islamic Fund Management in Turkey".

At the beginning of his presentation, he summarized the historical development of the fund management industry. He mentioned waqf which was the initial form of the trust, the first close-ended fund (1774-Eendragt Maakt Magt) and open-ended fund (1924-Massachusetts Investors Trust), Lembaga Tabung Haji (Hajj Pilgrimage Fund) which was the first modern Islamic fund and he mentioned about the first Islamic ETF in the world in Turkey. He also stated that the first regulation for the Islamic fund in Turkey was made within the Communique for Mutual Funds.

Mr. OZGUC gave information about the legal framework of Islamic fund management in Turkey. In Turkey's legal framework, Participation fund is a mutual fund that may only and permanently invest in; Sukuk, Participation accounts (investment accounts) at participation banks, corporate shares, gold and other precious metals, other non-interest bearing capital market instruments. Participation funds are established and managed only by the portfolio management companies that are licensed by the Capital Markets Board (CMB) of Turkey. Also, he informed the participants about specific subcategories of participation funds, which are

- "Sukuk Participation Fund" that invests at least %80 of its total fund value in sukuk,
- "Short-term Sukuk Participation Fund" whose weighted average date-to-maturity has to be between 25-90 days
- "Money Market Participation Fund" that may only invest in instruments with maximum 184 days to maturity and weighted average date-to-maturity of whose portfolio may not exceed 45 days.

Mr. OZGUC noticed that there are 16 sukuk participation funds and 6 short-term sukuk participation funds established, yet no Money market participation funds.

In Turkey, there are also "Participation Pension Funds" which may only and permanently invest in Sukuk, Participation accounts (investment accounts) at participation banks, corporate shares, gold and other precious metals, other non-interest bearing capital market instruments.

When the Participation Funds are reviewed in terms of Shariah Requirements:

- There is no written regulatory requirement for Shariah Supervisory Board, but in practice -due to the market discipline- participation funds have their own Shariah advisors and the funds give the list of their Shariah advisors as an annex to the issue document.
- There is no written regulatory requirement for Shariah Screening, but in practice -due to the market discipline- participation funds give information about the screening methodologies applied by their Shariah advisors.
- At fund level, purification of income through giving donations to charitable organizations is not allowed. However, the purification through distributing dividends (that is equal to impermissible income) to unit holders is allowed. Hence, the responsibility of what to do with the impermissible income falls to the unit holders.
- At the fund level, zakah payment is not allowed. It is the unit holders' responsibility to deduct zakah from their own total assets.

Moreover, Mr. OZGUC gave some information on the size of participation and pension participation funds in Turkey. He stated that beginning from 2014 there has been a constant increase in the total fund value of participation and pension participation funds.

He emphasized that while at the end of 2016, the total value of Participation Funds had been around USD 59.14 million, at the end of 2017 total value rose to USD 222.40 million. Similar to Participation Funds, at the end of the 2017 total value of Participation Pension Funds increased to USD 1,339.08 million, while it had been around USD 707.98 million as the end of 2016.

Mr. OZGUC also mentioned about asset allocations of Participation Funds and Participation Pension Funds and sizes of these funds. While Participation Funds' portfolio has 71% Private Sector Sukuk, Participation Pension Funds' portfolio has 51% Public Sector Sukuk.Concerning the aggregate numbers of Participation Funds and Participation Pension Funds; the number of Participation Funds is 38, number of Participation Pension Funds is 114. Besides, as of 2018/Q2 the total value of Participation Funds is USD 250 million and the total value of Participation Pension Funds is USD 1,451 million. The participation and pension funds constitute 5.5 % of total fund sector.

Mr. OZGUC underlined that, in Turkey, there are also alternative collective investment schemes. In this context, Real Estate Investment Funds (REIFs) and Private Equity/Venture Capital Investment Funds (PE/VC Funds) may also be designed in practice as Shariah-compliant. Mr. OZGUC stated that there are currently 20 REIFs and 10 PE/VC Funds established that adopted interest-free investment strategy. The total value of these funds equaled USD 431 million and the participation REIFs and PE/VC Funds constitute 57% of the whole REIFs and PE/VC Funds.

Finally, Mr. OZGUC gave information about the main challenges facing Islamic Fund Management in Turkey. These challenges are unregulated Shariah governance framework, inadequate personnel with skills comprising a blend of Shariah and financial knowledge, the lack of public awareness and understanding on Islamic financial instruments and low level of savings.

8. Private Sector's Contributions

8.1 Improving Islamic Fund Management: Perspective of Private Sector

Mr. Mohammad SHOAIB, Chief Executive Officer of Al Meezan Investment Management Limited (Pakistan), made a presentation on the challenges faced by Islamic funds in the private sector. He commenced his presentation from the global perspective in which he shared the top 25 Islamic fund managers and the top 25 Islamic equity funds with respect to the assets under their management.

Mr. SHOAIB shared the landscape of Islamic funds in Pakistan. He said that the 24% CAGR for Islamic funds in Pakistan in the last ten years is phenomenal when compared to meagre 6% growth of the mutual fund industry as the whole. More than half of the new product launches in the industry are those with the Shariah compliant mandate. The share of Islamic funds in the mutual fund industry has reached 36%, which is far better than the 16% share of Islamic banking deposits in the total banking deposits of the country. He further added that out of the nineteen fund managers currently operating in the country, seventeen are offering Shariah compliant funds as opposed to none back in 2002. He was also pleased to share with the participants that his company, Al Meezan Investment management limited, is the only full-fledged Shariah compliant fund management company of Pakistan which has to its credit numerous achievements in the growth and development of the Islamic funds industry.

He added that the outstanding growth in Islamic funds was not without challenges. He cited that when the idea of Islamic funds was initially floated, there was no regulatory structure present at that time. In order to provide the nascent Islamic funds industry a conducive regulatory environment, the private sector engaged with the regulators and were able to achieve some concessions compared to conventional funds such as greater flexibility with regards to investment limits on particular sectors and instruments, charging of Shariah advisory fee as part of fund expenses, obligating Islamic financial institutions to appoint a Shariah advisor, etc.

Mr. SHOAIB also highlighted that participants of the capital markets could not initially fathom the idea of Islamic Finance as a long term sustainable business structure, while investors were also very skeptical about the idea. Therefore, Islamic fund management industry engaged with the corporate sector and regulators to conduct awareness sessions, promote Islamic funds and remove misconceptions related to Islamic finance among the retail investors.

He underlined that Islamic equity funds relied on Shariah compliant listed companies. As there was the absence of Shariah compliant alternative for listed companies to invest their excess cash, it ended up in risk free avenues (Conventional Banks & PIBs). Due to this placement, such companies were not able to meet the Shariah screening criteria (high non-compliant investment and Income ratios). This issue was resolved through dialogue with companies to foster a better understanding of achieving Shariah compliance. Islamic fund managers also engaged with the regulators and the government to introduce Shariah compliant alternative to Pakistan Investment Bonds (PIBs) and T-bills. However, this issue is still to be completely resolved as the share of Islamic issuance in total Govt. Issuance is merely 4% and share of Islamic banking deposits in total banking deposits is 16%.

Mr. SHOAIB informed the participants that initially there was no benchmark for Islamic equity Funds and their performance was measured against the conventional benchmark index. He added that the 2008/2009 crisis proved that conventional Index was not suitable for measuring the performance of Islamic funds as conventional stocks were the most hit due to lack of asset backed financing. This issue was addressed by engaging Pakistan Stock Exchange to jointly develop the Islamic index criteria. In this respect, KSE-Meezan Index (KMI-30) committee was established that developed the criteria for the KMI-30 index, the index of 30 most liquid Shariah compliant stocks. The index is recomposed bi-annually and is adopted by all the financial institutions in Pakistan to measure the performance of their Islamic equity funds.

He added that initially, the issues were completely different on the fixed income side. Islamic banking industry was also in the developing stage, so no major Islamic avenues were available on the fixed income side for Islamic funds to invest in. There was also a lack of uniform valuation model for fixed income instruments. Different funds were valuing their investments in bonds and sukuks differently. The Islamic fund management industry played a critical role in the development of required valuation models for bonds and sukuks along with engaging the Islamic banking industry to introduce more corporate Sukuks. However, lack of sufficient supply of Sukuk (Corporate and Government) is still a bottleneck in the development of Islamic fixed income funds, he added.

Mr. SHOAIB mentioned that for Shariah conscious investors, there were limited investment products that were offered compared to the offerings on the conventional side. In this respect, different avenues were discussed with the prominent Shariah advisors to introduce Shariah compliant commodity fund, index fund, fund of funds, REIT and capital preservation plans. The industry is also engaged with the regulators, Stock Exchange and Shariah scholars for the development of exchange traded funds and further growth of real estate investment trusts.

Lack of HR with sound background knowledge of Shariah principles is also one of the main challenges being faced by the Islamic Funds management industry, he stated. There is a lack of adequate and sufficient training and learning opportunities in Shariah principles of Islamic finance and capital markets. Similarly, there is a lack of adequate research in product structuring. This is being addressed through the establishment of institutions and forums like Centre of Excellence in Islamic Finance created at three universities (IBA, LUMS and IMsciences) in three different cities. The objective of these centers is to provide a platform for discovery, enhancement and dissemination of knowledge in the field of Islamic Finance. Al Meezan has worked with IBA CEIF to develop and provide training on how to achieve Shariah compliance through our course called 'Road Map For Achieving Shariah Compliance For Listed Companies'

Commenting on the developments in Pakistan for the promotion of Islamic Finance, Mr. SHOAIB mentioned that the previous Finance Minister (Ishaq Dar) constituted a 10-member steering committee to formulate and recommend a comprehensive policy framework for the Islamic financial system. The Committee presented its recommendations to the Finance ministry in mid of 2016 regarding the practical steps needed to be taken to implement Shariah based financial system. The Finance Ministry later set up the Implementation Committee consisted of SBP Governor, SECP Chairman, Secretary of law, Chairman of Institute of Chartered Accountant of Pakistan, and Institute of Cost and Management Accountants of Pakistan. This committee is reviewing the steps required for Implementation of recommendations prepared by Steering

Committee. Few of the suggestions of Steering Committee such as setting up a dedicated Islamic Finance Division at SECP has already been implemented.

8.2 Experiences of Katılım Emeklilik in Islamic Pension Funds

Mr. Fatih Bozkurt, Head of Fund Management and Fund Services at Katılım Emeklilik ve Hayat A.Ş., made a presentation on Private Pension System, Auto Enrollment System and specific information about Katılım Emeklilik ve Hayat A.Ş. Interest Free Pension Funds.

At the outset, Mr. Bozkurt informed the participants about the Private Pension System and gave a brief information about it. He defined Private Pension System as “a special kind of savings system complementary to the current state social security system with an intent to provide additional income to individuals during their retirement days”. He also mentioned state contribution that is the amount paid by the government to the participants’ pension account, which is equal to 25% of the contribution amounts paid by the participants.

Secondly, Mr. Bozkurt briefed the participants about Auto-Enrollment Pension System. He underlined that this system was launched in 2017 and interest- free pension funds have been available in the start of the system as of conventional system simultaneously. He also claimed that employers should be responsible to include employees in the Auto Enrollment System (AES) pursuant to the provisions on the automatic participation of the Individual Pension Savings and Investment System Law No. 4632.

After that, Mr. Bozkurt explained Pension Fund Establishment Process. He underlined that the founder of pension fund must be a pension company. He stressed that all responsibilities belong to the pension company. Pension funds must be managed by an asset management company. As a result of regulations, from the beginning of 2018, every pension company can let them manage maximum %40 of total AuM to only one Asset Management Company which means every pension company must work with minimum 3 different asset management company. He also highlighted that every pension company must establish minimum three funds in private pension system and minimum four funds in Auto Enrollment System.

He touched upon the security selection process. Basic securities Sariah approval is?are taken from Shariah Board. If securities are approved by Sariah Board, the head of fund management analyses risk/return perspective. Mr. Bozkurt also stated that Pension Companies audited by CMB (Capital Markets Board of Turkey) and independent audit firms.

Mr. Bozkurt informed the participants on Katılım Index Stock Market. It has a lower market cap compared to the conventional market. The stock market has lower liquidity and it is very hard to buy and sell securities by not influencing market price. In the uptrend market movement, interest-free pension fund returns are lower compared to conventional peers and in the downtrend market, it is vice versa. According to Mr. Bozkurt, participation banks can go public via stock market and also to increase secondary market volume by enriching opportunities, firms must go public whose parameters are suitable to Katılım index rules.

Mr. Bozkurt explained the life process of Katılım Emeklilik ve Hayat A.Ş. Establishment and process started in 2013 and first products had sold in 2014. Since that date; five hundred thousand participants have joined and by October 2018, total fund size is 1,452 billion TL. At

Pension sector view; Katılım Emeklilik ve Hayat A.Ş. market share is 1,62%. At interest free part; this market share ratio is 12,94%. If we look at Auto Enrollment Pension Sector View; Katılım Emeklilik Hayat A.Ş. fund size is 107 million TL with 2,41% market share. At interest free part; market share is 4,14%. Also; year to date, Katılım Emeklilik ve Hayat A.Ş. has the highest performance at weighted return with 14,10%.

Mr. Bozkurt also touched upon movement and evolution of Interest Free Pension Fund. Between 2010-2018; there is a huge growth. By October 2018; there are more than 100 interest free pension fund at sector and total interest free pension fund size is more than 8 billion TL.

Finally, he mentioned Pension Funds in Private Pension System. There are eight different Pension Funds. These are; Participation Flexible, Participation Standard, Participation Gold, Participation State Cont., Participation Group Flexible, Participation Stock, Participation second Flexible(FX) and Participation Sukuk Pension Fund. In addition, there are four pension funds at Auto Enrollment System, which are Participation Starting, Participation Standard, Participation Attack Flexible and Participation Aggressive Flexible.

Question(s) and Comment(s)

Question: As Islamic mutual funds have a lot of resources, what can be done by them in the area of development projects or can any innovation be done?

Answer: Mr. SHOAIB added that mutual funds in Pakistan are allowed to invest only in publicly listed companies and instruments. Hence, they cannot invest in developmental or infrastructural projects. For that purpose, one needs to launch private equity funds as per Pakistani regulations for which a separate license is needed. Private equity funds are not very common in Pakistan yet.

He stated that in terms of innovation, Al Meezan has taken a leading step to launch a fund plan on "Waqf" model for Corporate Social Responsibility and it is to provide funding to Indus Hospital where all patients are treated free of cost. By investing in Meezan Indus Support Plan, investors can share their charity and Zakat amount.

He further added that they are also in process of taking necessary approvals for the launch of a fund plan for construction of new dams in Pakistan which will again be on a Waqf model as Pakistan is at risk of a big shortage of water by 2025 if new dams are not built.

9. Closing Remarks

The Meeting ended with closing remarks of Mr. ESSA DRAMMEH, Second Deputy Governor at the Central Bank of the Gambia and the Chairperson of the Meeting and Mr. Selçuk KOÇ, Director at the COMCEC Coordination Office.

In his closing remarks, Mr. KOÇ informed the participants that the 12th Meeting of the COMCEC Financial Cooperation Working Group will be held on March 28th, 2019 in Ankara with the theme of "*Infrastructure Financing through Islamic Finance in the OIC Member Countries*". He stated that a research report will also be prepared for the meeting and shared with the focal points and other participants at in advance of the meeting.

Annex 1: List of Participants

LIST OF PARTICIPANTS
11th MEETING OF THE FINANCIAL COOPERATION WORKING GROUP
25 October 2018, Ankara

A. MEMBER COUNTRIES OF THE OIC

PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA
- Mr. DJAMEL ADOUANE
  Assistant Director, Ministry of Finance
- Mr. MOHAMED BELKACEM
  Deputy Director, Ministry Of Finance

REPUBLIC OF AZERBAIJAN
- Mr. GUNDUZ ALIYEV
  Senior Advisor, Financial Services Policy Department

BRUNEI DARUSSALAM
- Mr. MAS NAZIRUL MASUNI
  Manager, Autoriti Monetari
- Mr. MD KASLANI HAJI MD KASSIM
  Assistant Officer, Autori Monetari

REPUBLIC OF COTE D'IVOIRE
- Mr. SIAKA FANNY
  Advisor of the Minister of Finance, Ministry of Finance
- Mr. ANGE URIEL KOUDOU BEHI
  Deputy Director of Studies and Analysis, Ministry Of Finance / General Department Of Treasury and Public Accounting

ARAB REPUBLIC OF EGYPT
- Ms. AMANY FAHMY
  Deputy Assistant Minister for Internatıonal Economic Relations, Ministry of Foreign Affairs
- Mr. AMR SELIM
  Deputy Head of Mission, Embassy of Egypt in Ankara

REPUBLIC OF GAMBIA
- Mr. ESSA DRAMMEH
  Second Deputy Governor, Central Bank of the Gambia
- Mr. AMADOU KOORA
  Director, Central Bank of the Gambia
- Ms. FATOUMATTA BARRY
  Fiscal Officer, Ministry Of Finance & Economic Affairs

ISLAMIC REPUBLIC OF IRAN
- Mr. HASSAN HAMZEHEI
  Area Manager, Central Bank of Iran
- Mr. REZA NOUHY HEFZABAD
  Supervisory Expert, Securities and Exchange Organization

REPUBLIC OF IRAQ
- Mr. KASHANI AL RAKABI
  Director General, Department for Economic Ministry of Finance

THE STATE OF KUWAIT
- Ms. JAMANAH AHMAD
  Foreign Relations Researcher, Ministry of Finance

MALAYSIA
- Mr. RIDZHAM ZAIDI RAZUAN
  Assistant General Manager, Securities Commission Malaysia

REPUBLIC OF NIGER
- Mr. MADOU GAMBO GANA
  Chief of Division, Ministry of Finance
- Mr. IBRAHIMA OUMAROU
  Expert, Ministry of Finances

ISLAMIC REPUBLIC OF PAKISTAN
- Mr. UMER SIDDQUE
  Counselor, Embassy of Pakistan in Ankara

THE STATE OF PALESTINE
- Ms. NOUR TAWIL
  Manager, Ministry of Finance
- Mr. SHADI RUBO'
  Manager, General Accountant Department

STATE OF QATAR
- Mr. MOHAMMED AHMED EL KHOURI
  Economic Advisor, Ministry of Finance

REPUBLIC OF SENEGAL
- Mr. IBRAHIMA NGOM
  Commissioner, Direction of Foreign Trade

REPUBLIC OF TUNISIA
- Mr. MOHAMED LARBI DABKI
  Director, General Directorate of Financing of the Ministry of Finance (DGF)

REPUBLIC OF TURKEY
- Ms. DENİZ YILMAZ
  Assistant General Manager, Ministry of Treasury and Finance
- Mr. ERKAN ÖZGÜÇ
  Deputy Head of Department, Capital Markets Board of Turkey

REPUBLIC OF UGANDA
- Mr. COLLINS HERBERT ISHIMWE
  Senior Economist, Ministry of Finance

B. THE OIC SUBSIDIARY ORGANS

STATISTICAL, ECONOMIC, SOCIAL RESEARCH AND TRAINING CENTER FOR ISLAMIC COUNTRIES (SESRIC)

- Mr. ABDULHAMİT ÖZTÜRK
  Research Assistant, SESRIC

C. SPECIALIZED ORGANS OF THE OIC ISLAMIC DEVELOPMENT BANK (IDB)

- Mr. NOSRATOLLAH NAFAR
  Lead Economist, IDB

D. INVITED INSTITUTIONS

SECRETARIAT OF COMCEC CAPITAL MARKETS' REGULATORS FORUM

- Ms. SEÇİL SAYIN KUTLUCA
  Chief Expert, SPK

SECRETARIAT OF OIC STOCK EXCHANGES FORUM

- Mr. HAKKI AKDAŞ
  Senior Specialist, BORSA İSTANBUL

INTERNATIONAL SHARI'AH RESEARCH ACADEMY FOR ISLAMIC FINANCE (ISRA)

- Dr. MARJAN MUHAMMAD
  Senior Researcher

RAM RATINGS

- Ms. RUSLENA RAMLI
  Head of Islamic Finance

KATILIM EMEKLİLİK VE HAYAT A.Ş.

- Mr. FATİH BOZKURT
  Head of Fund Management & Fund Services

AL MEEZAN INVESTMENT MANAGAMENT LTD.

- Mr. MUHAMMAD SHOAIB BHATDA
  Chief Executive Office

E. COMCEC COORDINATION OFFICE

- Mr. M. METİN EKER
  Director General, Head of COMCEC Coordination Office
- Mr. SELÇUK KOÇ
  Director
- Mr. BURAK KARAGÖL
  Director
- Mr. MEHMET ASLAN
  Director
- Mr. OKAN POLAT
  Expert
- Mr. ALİ ORUÇ
  Expert

- Mr. MUSTAFA ADİL SAYAR
  Expert
- Mr. CEZMİ ONAT
  Financial Sector Specialist
- Mr. ÖNDER DEMİREZEN
  Financial Sector Specialist

Annex 2: Agenda of the Meeting

AGENDA
11th MEETING OF THE COMCEC
FINANCIAL COOPERATION WORKING GROUP
(October 25th, 2018, Ankara)

"Islamic Fund Management"

Opening Remarks

1. COMCEC Financial Outlook
2. Overview of Islamic Fund Management
3. Selected Case Studies and Policy Options
4. Policy Debate Session on Improving Islamic Fund Management in the OIC Member Countries
5. Utilizing the COMCEC Project Funding
6. Member Country Presentations
7. Private Sector's Contributions

Closing Remarks

Annex 3: Program of the Meeting

DRAFT PROGRAMME
11TH MEETING OF THE
COMCEC FINANCIAL COOPERATION WORKING GROUP
(October 25th, 2018, Crowne Plaza Hotel, Ankara, Turkey)

"Islamic Fund Management"

08.30-09.00	**Registration**
09.00-09.05	**Recitation from Holy Qur'an**
09.05-09.15	**Opening Remarks**
	COMCEC Financial Outlook
09.15-09.35	Presentation: *Mr. Cezmi ONAT, Financial Sector Specialist, COMCEC Coordination Office*
09.35-09.45	Discussion
	Overview of Islamic Fund Management
09.45-10.25	Presentation: *Dr. Marjan MUHAMMAD, Head of Research Quality Assurance Office, International Shari'ah Research Academy for Islamic Finance (ISRA)*
10.25-10.55	Discussion
10.55-11.10	**Coffee Break**
	Selected Case Studies and Policy Options
11.10-11.50	Presentation: *Ms. Ruslena RAMLI, Head of Islamic Finance, RAM Ratings*
11.50-12.30	Discussion
12.30-14.00	**Lunch**

Policy Debate Session on Improving Islamic Fund Management in the OIC Member Countries

There will be a moderation session under this agenda item. Participants are expected to deliberate on the policy options/advices for improving Islamic Fund Management in the OIC Member Countries. At the beginning of the session, the CCO will make a short presentation on the responses of the Member Countries to the policy questions as well as the Room Document.

14.00-14.10 Presentation: "Responses of the Member Countries to the Policy Questions on Islamic Fund Management in the OIC Member Countries"

Mr. Selçuk KOÇ, Director
COMCEC Coordination Office

14.10- 15.30 Discussion

Utilizing the COMCEC Project Funding

15.30-15.45 Presentation: *Mr. Burak KARAGÖL, Director*
COMCEC Coordination Office

15.45-16.00 Discussion

16.00-16.15 **Coffee Break**

Member Country Presentations

16.15-17.15 - Presentations

- Discussion

Private Sector's Contributions

17.15-17.30 Presentation: *"Improving Islamic Fund Management: Perspective of Private Sector "*

Mr. Mohammad SHOAIB, CEO,
Al Meezan Investment Management Limited

17.30-17.45 Presentation: *"Experiences of Katılım Emeklilik in Islamic Pension Funds"*

Mr. Fatih BOZKURT, Head of Fund Management & Fund Services
Katılım Emeklilik

17.45-18.00 Discussion

18.00-18.15 **Closing Remarks and Family Photo**

Annex 4: Policy Recommendations

**POLICY RECOMMENDATIONS OF THE 11TH MEETING OF
THE COMCEC FINANCIAL COOPERATION WORKING GROUP**

The COMCEC Financial Working Group (FCWG) has successfully held its 11th Meeting on October 25th, 2018 in Ankara, Turkey with the theme of "*Islamic Fund Management*". During the Meeting, FCWG made deliberations on improving Islamic fund management in the OIC Member Countries. Room Document, prepared in accordance with the main findings of the analytical study conducted for the 11th Meeting of FCWG and the answers of the Member Countries to the policy questions, was the main input for the discussions. Accordingly, the participants have come up with some policy recommendations.

Rationale:

Policy Advice 1: Development of Key Measures (developing masterplans, promotional activities, etc.) to Support a Viable Ecosystem for Islamic Funds

Rationale: Governments' presence in promoting successful inclusion of Islamic funds within the financial landscape will boost and aid effective implementation of strategies. In addition, the development of a masterplan at the national level and creation of market demand are vital to support development of an Islamic fund industry. Greater market awareness will also provide the coverage required to support financial inclusion and financial planning. This can be achieved through collaboration between regulators and market players via promotional activities, conferences, and seminars for public education.

Policy Advice 2: Development of a Robust Regulatory, Supervisory and Shariah Frameworks to Ensure Compliance, Growth and Protection of all Stakeholders' Interest particularly Investors'.

Rationale: The establishment of a robust regulatory framework and ongoing market supervision engender trust in the markets, allowing greater transparency in product development, approval processes and governance while ensuring the protection of all stakeholders' interests. The governing rules and regulations that are issued by a regulatory body set the tone on the conduct of asset management companies and facilitate the orderly development of the Islamic fund management industry. Equally important is considering the development of a Shariah framework to govern the operations of the Islamic fund management industry. The issuance of guidelines on Shariah screening and purification process provides greater clarity to investors and other market participants regarding business conduct.

Policy Advice 3: Encouraging Establishment of Institutional Funds to Increase Demand for Islamic Funds.

Rationale: The development of a captive market for Shariah-compliant assets is key to building an investor base for Islamic funds. Wealth preservation and capital appreciation start with market awareness on the importance of investing and saving. Some Governments of developing countries have instituted government-linked bodies to manage retirement funds. Furthermore, the level of financial inclusion differs from one country to another. As such, the institutionalization of public savings goes a long way towards facilitating the development of a local fund management industry.

Based on the study, institutional investors that provide seed investment to Islamic funds have helped spur market performance and build the necessary track record for Islamic fund management. Ultimately, institutional funds play a pivotal role to support wealth creation and mobilization of savings to support economic growth, taking into account national plans and priorities.

Policy Advice 4: Encouraging the Development of a Facilitative Tax Framework to Secure Strong Commitments from Supply and Demand Sides to Promote Competitive Positioning for Islamic Funds.

Rationale: A facilitative tax framework is key in attracting commitments from market practitioners, institutional investors, including retail investors to sustain the long-term growth of Islamic fund management industry. The establishment of tax neutrality facilitates the costing of Islamic finance products, so as to be competitive with conventional offerings. Consideration of additional tax incentives to encourage investors to choose Shariah investments would provide another venue for the growth of the Islamic finance market. Some countries also provide tax rebates to individuals vis-à-vis investment in retirement schemes and children's education, all of which help strengthen demand for fund management.

Instruments to Realize the Policy Advices:

COMCEC Financial Cooperation Working Group: In its subsequent meetings, the Working Group may elaborate on the above-mentioned policy areas in a more detailed manner.

COMCEC Project Funding: Under the COMCEC Project Funding, the COMCEC Coordination Office issues calls for project proposals each year. With the COMCEC Project Funding, the member countries participating in the Working Groups can submit multilateral cooperation projects to be financed through grants by the COMCEC Coordination Office. For realizing above-mentioned policy recommendations, the member countries can utilize the COMCEC Project Funding facility. These projects may include organization of seminars, training programs, study visits, exchange of experts, workshops and preparation of analytical studies, needs assessments and training materials/documents, etc.