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

Proceedings of the 7th Meeting of the COMCEC Financial Cooperation Working Group

"National and Global Islamic Financial Architecture: Problems and Possible Solutions for the OIC Member Countries"

COMCEC COORDINATION OFFICE
November 2016

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

PROCEEDINGS OF THE 7TH MEETING OF THE
COMCEC FINANCIAL COOPERATION WORKING GROUP
ON

"NATIONAL AND GLOBAL ISLAMIC FINANCIAL ARCHITECTURE: PROBLEMS AND POSSIBLE SOLUTIONS FOR THE OIC MEMBER COUNTRIES"

(October 20th, 2016, Ankara, Turkey)

COMCEC COORDINATION OFFICE
November 2016

For further information please contact:

Mr. Okan POLAT
Expert

COMCEC Coordination Office
Necatibey Caddesi No: 110/A
06100 Yücetepe
Ankara/TURKEY
Phone : 90 312 294 57 10
Fax : 90 312 294 57 77
Web : www.comcec.org
e-mail : comcec@comcec.org
opolat@comcec.org

TABLE OF CONTENTS

Introduction

The 7th Meeting of the COMCEC Financial Cooperation Working Group was held on October 20th, 2016 in Ankara, Turkey with the theme of "National and Global Islamic Financial Architecture: Problems and Possible Solutions for the OIC Member Countries ". The Meeting was attended by the representatives of 15 Member States, which have notified their focal points for the Financial Cooperation Working Group namely, Afghanistan, Algeria, Azerbaijan, Burkina Faso, Cameroon, Cote D'Ivoire, Gabon, Iran, Kuwait, Palestine, Senegal, Sudan, Tunisia, Uganda and Turkey. Representatives of COMCEC Coordination Office, Islamic Development Bank (IDB), AAOIFI, SESRIC, World Bank GIFDC, Participation Banks Association of Turkey attended the Meeting.[1]

At the outset, the representative of the COMCEC Coordination Office informed the participants about the financial outlook of the Member Countries. It was followed by the presentation made by Prof. Dr. Habib AHMED, Durham University, on Islamic financial architecture in the OIC Member Countries as well as global Islamic financial architecture.

The participants considered Islamic financial architecture through focusing on the Analytical Study titled "National and Global Islamic Financial Architecture: Problems and Possible Solutions for the OIC Member Countries" commissioned by the COMCEC Coordination Office specifically for the Meeting.

The Representatives of the Member States shared their experiences, achievements and challenges regarding improving/establishing Islamic Finance Architecture in their respective countries. The participants had the chance to discuss the policy options for enhancing the cooperation in this important field. The Room Document based on the findings of the Analytical Study submitted to the Financial Cooperation Working Group Meeting and the answers of the Member Countries to the policy questions sent to the Member States by the COMCEC Coordination Office were the main inputs for the discussions during moderation session.

The efforts exerted by international institutions and private sector on Islamic Finance were also reflected to the discussions.

[1] The list of participants is attached as Annex 4.

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. M. Metin EKER, Director General of the COMCEC Coordination Office introduced the COMCEC and the Programme of the meeting briefly.

Mr. Mirgani Abdella GLOOD INDILA, Director, Minsitry of Finance and Economic Planing of Sudan, as the Chairperson of the Meeting, introduced himself and thanked all the participants and made a short opening speech.

2. The Financial Outlook of the OIC Member Countries

Mr. Alper BAKDUR, financial sector specialist at the COMCEC Coordination Office, presented the main findings of the Financial Outlook of the OIC Member Countries 2016. He emphasized that Financial Outlook is prepared to show the main picture of financial institutions and markets in the OIC Member Countries. He emphasized that the report, does not cover fully all aspects of financial institutions and markets, mainly due to data limitations for the OIC Member Countries.

Mr. BAKDUR expressed that 2016 report includes the improvements in two ways compared to the previous year's report. First, it covers banking and capital markets as new chapters. Second, the report makes use of Bankscope database to infer detailed insights on the banking sectors of the member countries.

For 6 specializations of banks, Commercial Banks, Cooperative Banks, Investment Banks, Islamic Banks, Real Estate & Mortgage Banks, and Savings Banks, and for each member country, the data for selected indicators were collected for 968 banks in total. The breakdown of these banks in specialization and country allows delegates to check the true values in the member countries. Mr. BAKDUR emphasized that, as it is the case for all databases, Bankscope has also some limitations in terms of coverage. Hence, he stated that they surveyed the focal points to see in what extent Bankscope has representative data on the member countries.

After clarifying his reservations on the database's limitations, Mr. BAKDUR showed the figures on total assets among the member states. The figures reveal that there is high a concentration among countries and Turkey and Malaysia lead countries in terms of total assets.

Mr. BAKDUR explained that having detailed data on individual banks allow further analysis. However, he emphasized that he refrains from conclusive interpretations before confirming the database's representativeness. Nevertheless, the data allow computing Herfindahl-Hirschman Index, which is used to indicate the degree of concentration in the member countries. It appears that Bangladesh, Indonesia and Malaysia have the most competitive banking sectors.

Mr. BAKDUR further explained his findings on three more indicators: Net Loans over Total Assets, Return on Average Assets, and Impaired Loans over Gross Loans. Presenting figures in simple and weighted averages, of which estimations are only possible with the data for each individual bank, he stated that it is possible to infer the difference between small and big banks within a country. To sum up, for the banking sectors, top 5 countries in terms of total assets of their banking systems cover about 60 per cent of all assets in OIC member countries. (Top 10 cover 80 per cent) This indicates different needs or policy agenda of top 10 and the rest of the OIC member countries.

In the second part of the presentation, Mr. BAKDUR covered capital markets. He stated that in this chapter the OIC Member States' Stock Exchanges Forum Integrated Statistics Report 2014 was utilized. This report is the result of the effort by the Stock Exchanges' Forum led by Borsa İstanbul. The report covers the data for 25 stock exchanges from 21 countries. Among exchanges, number of listed companies range from 4 (exchanges in Mozambique and Algeria) to 905 (Bursa Malaysia). In terms of market capitalization in US dollars, top 3 exchanges represent 53 percent of the total market capitalization, and top 10 exchanges represent 85 percent of the total market capitalization. In brief, not all OIC member countries have organized stock exchanges. Top 10 exchanges comprise of 85 per cent of all market capitalization in OIC member countries. Cooperation in specific capital market topics may draw limited attention among OIC member countries. Topics on developing capital markets may interest more OIC member countries.

In the third part of the presentation, Mr. BAKDUR provided an evaluation of financial systems in the OIC member countries. This part used World Bank's Global Financial Development Database. The database is initiated by the work of Cihak, M., Demirgüç-Kunt, A., Feyen, E., & Levine, R. (2012), titled "Benchmarking financial systems around the world". This study provides measures over four broad characteristics of the financial systems and presentation follows this classification. These four broad characteristics 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.

Measures were chosen in a way that a measure has data for as many countries as possible and it has also direct interpretation regarding four broad characteristics. Even with this procedure, data for individual countries may not exist. To overcome this issue, Mr. BAKDUR explained that the member countries are categorized in four groups considering the income brackets of World Bank. According to this categorization, 15 countries are in OIC-Low Income Group (OIC-LIG); 19 are in OIC Lower Middle Income Group (OIC-LMIG); 16 are in OIC-Upper Middle Income Group (OIC-UMIG), and 7 are in OIC-High Income Group (OIC-HIGH). Presentation covered 13 measures for four characteristics and it reveals that OIC-UMIG and OIC-HIGH groups are equal to or above world averages whereas OIC-LIG and OIC-LMIG are below world averages. Trends from 2011 to 2014 in measures in general indicate improvements in the functioning of the financial systems in the member countries.

The last part of the presentation was devoted to Islamic finance. This chapter has been heavily drawn from International Financial Services Board's (IFSB) reports. A figure on Islamic Banking Share in Total Banking Assets as of the first half of 2015 reveals that there are two countries, Iran and Sudan, which have full-fledged Islamic finance environment. Islamic banks in 9 other countries also have 15 percent or more share in their banking systems. Hence, there are 11 countries, in which Islamic banks are systematically important. In terms of shares of global Islamic Banking Assets as of the first half of 2015, top 15 countries are from the OIC member countries. However, looking at Islamic Finance Country Index rankings, which mainly list the countries in terms of their size in Islamic finance and their capacity to affect the development of Islamic finance in other countries, top 20 countries include 17 OIC member countries. Three other countries are UK, USA and Sri Lanka.

Question(s) and Comment(s):

Comments:

- Cameroon delegate mentioned that the number of banks in Cameroon is not 9 as indicated in Bankscope database, and added that the true number is 14.
- Algerian delegate also mentioned that the number of banks in Algeria is not 17 as indicated in Bankscope database, and added that the true number is 20
- Turkish delegate expressed that multilateral organizations such as SESRIC and IDB may take responsibility for collecting data and to start data gap initiatives.

- Iran delegate emphasized that the country authorities need to cooperate more.

Question:

- Delegate of Iran mentioned that banks and capital markets are not the only financial elements in financial systems and asked why other elements such as insurance/takaful are not included in the Outlook report.

Answer:

- Mr. BAKDUR stated that there is severe data limitation over the OIC member countries. He underlined that COMCEC Coordination Office does its best to find the relevant data. Banking and capital markets are the two areas that the data could be found. He added that this is not representative of the whole financial system but this is all data that is available at the moment.

3. Islamic Financial Architecture: Key Components and Framework

Professor Habib Ahmed, Sharjah Chair of Islamic Law and Finance at Durham University Business School and CEO, Maqasid Ltd. made two presentations on Islamic financial architecture. The first presentation titled "Islamic Financial Architecture: Key Components and Framework" provided the background on the development of the concept of financial architecture and the unique elements that are relevant for Islamic finance. The presentation was based on Chapter 2 of the commissioned study which provides the basis for the empirical work carried out in the research.

After providing the background of the concept of financial architecture, Prof. Ahmed pointed out that while there are some of the elements of financial architecture are neutral and apply to both Islamic and conventional finance, there are certain unique features in the Islamic financial sector that may not be covered by the conventional architectural institutions and require specific attention. He then identified seven architectural elements that need special attention.

The first element of the Islamic financial architecture is the Legal Infrastructure which includes existence of supporting Islamic finance laws, tax regimes impacting Islamic finance, dispute settlement/conflict resolution framework and institutions, and resolution of banks. The second element is Regulation and Supervision Framework for Islamic finance which entails appropriate regulatory and supervisory frameworks for Islamic banks, takaful and Islamic capital markets including the presence of separate regulatory departments/units dealing with Islamic financial sectors.

Prof. Ahmed characterized Shariah Governance Framework as the third architectural element for Islamic finance since Shariah compliance is the hallmark of the industry. This would require existence of regulatory standards for Shariah governance and whether Islamic financial institutions are required to use IFSB/AAOIFI Shariah governance guidelines of AAOIFI Shariah standards. The role of central national Shariah board (if it exists) and its responsibilities and scope also need to be ascertained under this framework.

The fourth architectural element that would be necessary for the development of Islamic finance was identified as liquidity infrastructure to address the liquidity needs and risks of the industry. The specific aspects under this element include the existence of liquidity management framework (markets and arrangements) and liquidity management instruments and products for Islamic financial institutions at the private sector level and the need for Shariah compliant lender of last resort facilities and instruments that Islamic banks can use at the public level.

Prof. Ahmed identified the fifth architectural element for Islamic finance as Information Infrastructure and Transparency that enables appropriate reporting and disclosure of the operations of the industry. Given some unique features of Islamic financial transactions, this may require using either AAOIFI accounting/auditing standards or domestic standards adapted to Islamic finance. Furthermore, external credit rating organizations that can provide credit ratings for sukuk issuance and Shariah ratings of Islamic financial institutions would also be an important factor in the development of the industry.

The sixth element of the Islamic financial architecture for Islamic finance is Consumer Protection Architecture that includes laws/regulations related to the protection of consumers of Islamic financial institutions and institutional mechanisms/arrangements to address the unfair treatment of consumers. Shariah compliant deposit insurance scheme would also be necessary to protect depositors of Islamic banks. Given the relatively complicated contracts used to structure Islamic financial products that are new for most consumers, a scheme for financial literacy dealing specifically with Islamic financial consumers is also required.

Prof. Ahmed identified Human Capital & Knowledge Development Framework as the last element of the financial architecture. He asserted that the future growth of the industry would require adequate personnel to cater to the needs of the Islamic financial sector at different levels (such as regulatory bodies, IFIs, law firms, etc.). This can be done by creating public and private educational/academic institutions that can enhance the knowledge and skill levels for the Islamic financial sector.

Question(s) and Comment(s)

Question: Why the regulatory authorities of the Member Countries don't implement the standards produced by the Islamic financial architecture institutions.

Answer: Prof. Dr. AHMED mentioned that for implementing these standards there is an obvious need to political will.

Comment: For ensuring the political will the awareness of policy makers on Islamic finance should be raised.

4. Islamic Financial Architecture in the OIC Member Countries: Current Situation, Main Challenges, Recommendations and Prospects

Prof. Ahmed made a second presentation on “Islamic Financial Architecture in the OIC Member Countries: Current Status, Main Challenges, Recommendations and Prospects” which is based on Chapters 4, 6 and 7 of the commissioned report. The introductory part of the presentation identified the 12 OIC member countries used as case-studies for the study (which are Bangladesh, Egypt, Indonesia, Malaysia, Nigeria, Oman, Pakistan, Saudi Arabia, Senegal, Sudan, Turkey and United Arab Emirates) and provided some background of the scope and methodology of collecting data and information. As indicated in the first presentation, the seven financial architectural elements examined for these countries were legal infrastructure; regulation and supervision framework; Shariah governance framework; liquidity infrastructure; information infrastructure and transparency; consumer protection architecture; and human capital and knowledge development framework. The overall status of these elements of financial architecture were assessed and ranked as ‘developed’, ‘developing’ and ‘undeveloped’.

Prof. Ahmed reported that results from the OIC MCs case-studies show that countries have different levels of development of Islamic financial architecture. On average, other than ‘regulation and supervision’, ‘information infrastructure’ and ‘consumer protection infrastructure’ which are ‘underdeveloped’, the other architectural elements were found to be in the ‘developing’ stage. Prof. Ahmed presented the gaps in each of these elements and the steps that can be taken to strengthen then both at the national and internal levels.

The results from the legal infrastructure for Islamic finance indicated there need to enact supporting Islamic financial laws and adjust tax laws, the bankruptcy framework and dispute resolution institutions also need to accommodate the Islamic financial sector.

With regards to regulations and supervision, Prof. Ahmed suggested that the regulatory authorities need to understand the nature of the risks arising in the Islamic financial industry to develop appropriate regulatory frameworks. This may require not only appropriate regulations for all Islamic financial sectors but also separate departments/units in regulatory bodies dealing with the Islamic financial sectors.

The third architectural element discussed was setting up a sound Shariah governance regime. This has to be done by regulators who should provide a framework for Shariah boards for financial institutions and also taking initiatives to set up national Shariah board that would be responsible for issuing Shariah standards/parameters and promoting the harmonization of practices by ensuring the Shariah compliance of the contracts used in the industry.

A robust liquidity infrastructure consists of appropriate instruments, efficient and liquid financial markets, and access to LOLR funds from central banks. Prof Ahmed cautioned that there is not only a scarcity of Shariah compliant liquid instruments, but most jurisdictions also lack deep and efficient Islamic financial markets. While the central bank and regulatory authorities can help develop the infrastructure for financial markets, the liquidity instruments can be supplied by both public and private entities.

A sound Information Infrastructure and Transparency regime is needed to properly reflect the transactions and operations of Islamic financial institutions. Prof. Ahmed recommended that countries can opt for using either AAOIFI accounting standards or domestic accounting standards adapted by Islamic finance. Other than the credit ratings provided by conventional rating agencies for debt based transactions, other types of assessments such as Shariah compliance ratings and providing assessments for equity modes of financing are also needed for Islamic finance.

Prof. Ahmed noted that the study finds the architectural element of consumer protection to be the weakest for the Islamic financial sector in the countries that were examined. Instituting appropriate laws and regulations to protect consumers and deposit insurance have to be implemented by the government and regulators, improving financial literacy will require effort at different levels.

The final element of the financial architecture is Human Capital and Knowledge Development Framework which appear to be the strongest element of the Islamic financial architecture. However, Prof. Ahmed noted that as the industry is expected to grow, there will be increasing demand for personnel with the appropriate knowledge and skills, particularly in countries where the industry is relatively new. In this regard, the public and private sector entities, along with academic institutions and universities, can contribute to providing training and building a knowledge base for the future growth of the industry.

At the international level, Prof Ahmed suggested establishing two new organizations to support the development of Islamic financial architecture and strengthening the existing institutions. The first new institution suggested is the Stability Board for Islamic Finance (SBIF) that would be responsible for coming up with a framework of establishing Islamic Financial Sector Assessment Program (IFSAP) and ensure implementation of various relevant Standards and Codes applicable to Islamic financial sector. SBIF will coordinate not only the implementation of existing standards of IFSB and AAOIFI but also contribute to filling the gaps in other architectural elements such as the legal and Shariah governance frameworks for the Islamic financial sector globally. The second institution would be Islamic Monetary Fund (IsMF) that can be initiated by different international Islamic infrastructure institutions related to Islamic financial industry and liquidity management (IDB, IFSB, IIFM, IILM and LMC). The role of IsMF would be to provide Shariah compliant liquidity to OIC MCs and coordinate arranging liquidity from other central banks.

Prof. Ahmed then identified how the existing international infrastructure institutions can contribute to the development of different elements of Islamic financial architecture. At the international level, the gaps in legal infrastructure in terms of laws related to Islamic finance will be easier to fill if there are model laws that the countries can refer to. However, currently there are no global initiatives that deal with legal matters. Initiatives from organization such as IDB can develop templates for Islamic financial laws and also come up with a framework for harmonizing national laws with Shariah principles governing Islamic finance for both civil law and common law countries.

Prof. Ahmed urged that although the IFSB has published many regulatory standards and guidelines for the Islamic financial industry, the coverage for different sectors has not been even. As the Islamic financial industry is expected to grow in the future, there may be a need to strengthen the institutional capacity of the IFSB. One way to do this is to have separate divisions within the IFSB dealing with issues related to Islamic banking, takaful and Islamic capital market segments.

While both AAOIFI and IFSB have published Shariah governance standards for Islamic financial institutions, Prof. Ahmed noted that there are no guidelines for national Shariah boards. Given that national Shariah boards can contribute to the harmonization of practice and the reduction of costs of Shariah governance in organizations and Shariah compliance risks within jurisdictions, Prof. Ahmed suggested that there is a need to come up with a framework for it. Furthermore, the work on developing Shariah standards, parameters and templates for Islamic financial products by the AAOIFI, IsFA and IIFM need to continue to enhance cross-border and international transactions by reducing legal and Shariah compliance risks.

As indicated, Prof Ahmed suggested the creation of IsMF that can provide Shariah compliant liquidity to OIC MCs. As the secondary markets for sukuk in most countries are shallow making them illiquid, IFSB and IIFM can develop guidelines and templates to strengthen money markets, secondary markets for Islamic securities, and LOLR facilities for Islamic banks.

Prof Ahmed noted that there is significant progress being made towards developing accounting and auditing standards by AAOIFI. Furthermore, AAOIFI and IFSB have also published disclosure guidelines for the banking and takaful sectors. There is a need to develop detailed disclosure guidelines for Islamic capital markets and Shariah compliance of products and securities. Ratings agencies that can assess Shariah compliance and risks in equity based instruments can further strengthen the information infrastructure for the industry.

Initiatives at the global level to develop consumer protection guidelines that cater to the specific features of the Islamic financial sector and also come up with a framework for financial literacy programs can help their implementation at the national level. Prof Ahmed suggested that while the former can be done by IFSB, the latter can be initiated by CIBAFI. To protect Islamic banking depositors during crises would also require appropriate models for deposit insurance. IFSB can collaborate with IADI to initiate this project.

Prof. Ahmed pointed out that various multilateral organizations such as IRTI, IDB and World Bank GIFDC are involved in research that can promote the development of the Islamic financial sector. There is also need to invest in research and provide training in different areas related to Islamic architectural institutions. One key gap that needs to be filled is creating knowledge related to infrastructure institutions and providing training to staff in public bodies that work in the industry. While IFSB organizes workshops to familiarize its published standards and guidelines, multilateral organizations such as IDB and WB can take initiatives to enhance such knowledge and skills to develop other elements of infrastructure institutions through their technical assistance programs.

Question(s) and Comment(s)

Question: There are 12 cases in research study and how the findings on 12 member countries represent the 57 member countries?

Answer: Prof. Dr. AHMED stated that the case study countries were chosen in different regions of the OIC considering the balance between official OIC Regions. He added that the total asset size of case study countries is closed to 44% of the global Islamic finance industry. He also added that case study countries also provide the variation of development stages in Islamic finance. He expressed that, when considering these, these countries are quite representative to all member countries.

Question: In study 7 elements of financial architecture are elaborated and if they need to be prioritized which one comes first to develop?

Answer: Prof. Dr. AHMED express that in terms of establishment of Islamic Finance industry legal construction is the basic element. He mentioned that the structure of the report was organized in line with the importance of the architectural elements of Islamic finance industry.

Comment: Turkish delegate underlined that priority among the elements should be made according to the needs of the countries.

5. Policy Options for Improving Islamic Financial Architecture in the OIC Member Countries

The policy debate session was moderated by Dr. Hamed MERAH, Secretary General of AAOIFI. At the beginning of the session, Mr. Okan POLAT, expert from the COMCEC Coordination Office, made a brief presentation on the responses of the Member Countries to the policy questions on Islamic Financial Architecture sent to the Financial Cooperation Working Group focal points by the CCO. In his presentation, Mr. POLAT gave brief information on policy questions. He stated that the purpose behind these policy questions was to strengthen policy dimension in the discussions of the Financial Cooperation Working Group. After presenting the questions and responses of the Member Countries, he introduced the draft policy advices included in the Room Document.

After the CCO presentation, Dr. MERAH gave the floor to all delegations asking their opinions and comments for each policy advices as well as the experience of their respective countries in this regard. After extensive discussions, the Working Group has come up with the following policy recommendations.

- **Policy Advice 1:** Developing/ Supporting Legal Framework for Islamic Finance by Reviewing Islamic financial laws, tax regimes, dispute settlement framework and bankruptcy law
- **Policy Advice 2:** Developing Necessary Regulatory and Supervisory Institutional Framework for the Islamic Financial Services Industries (IFSI) through Adopting Standards Developed by Islamic Financial Architecture Institutions and Improving the National Framework
- **Policy Advice 3**: Establishing a Sound Governance Framework by Introducing the Requirement of Shariah Governance at the Financial Institution Level in Islamic Financial Laws and in Regulations
- **Policy Advice 4**: Enhancing Consumer Protection and Financial Education through Ensuring Full Disclosure in Islamic Finance Contracts and Having Financial Education Programs to Increase Awareness and the Level of Understanding of Islamic Financial Transactions
- **Policy Advice 5:** Developing Liquidity Infrastructure for Islamic Financial Sector by Issuing Shariah Compliant Liquidity Instruments, Developing an Active Islamic Money Market and Ensuring Lender of the Last Resort to Offer Shariah Compliant Facilities

6. Utilizing the COMCEC Project Funding

Mr. Hasan YENİGÜL, Expert at the COMCEC Coordination Office made a presentation on the COMCEC Project Funding introduced by the COMCEC Strategy.

At the outset, Mr. YENİGÜL mentioned that COMCEC Project Funding (CPF) functions as an operational tool to realize the principles and strategic objectives of the Strategy. This mechanism aims to enhance multilateral cooperation of the partner countries, increase institutional and human capacity, improve joint solutions to common problems, strengthen operational skills on preparation, coordination and implementation of international projects and support the policy environment for the policy recommendations adopted by the COMCEC Ministerial Meetings.

He underlined the link between working groups and CPF and presented its main characteristics. Mr. YENİGÜL shared information regarding the actors and their roles in CPF. He also underlined that member countries having registered to the respective working group can submit project proposals.

Mr. YENİGÜL continued his presentation by explaining the "Project Selection Criteria" as the compliance with Strategy's Principles, targeting strategic objectives of the Strategy through focusing on output areas, compliance with the sectorial themes stated in the Program Implementation Guidelines and pursuing multilateral cooperation among the OIC Member Countries. Furthermore, the active and regular participation of countries or institutions to the working group meetings is taken into consideration while evaluating the project proposals.

He also shared some statistics about the project proposals in the past three-year period. Two hundred nine project proposals were submitted by member countries and OIC institutions during three-year period. Twenty two projects were implemented in 2014 and 2015. Three of them are finance projects. 10 project proposals are final listed in 2016. Their implementation process started as of April 1st, 2016. One of them is finance projects. He also gave some information on the implemented projects in the previous year and on-going projects in 2016.

Question(s) and Comment(s)

Question: The delegate from Cote d'Ivoire asked the profile of the project coordinator.

Answer: The representative of the CCO mentioned that the general qualification of the project coordinator could be found in the Program Implementation Guideline, which are among others, preferably being form an OIC Member Country, previous experiences in coordination of international projects etc.

Comment: The COMCEC Project Funding mechanism is an instrument to realize policy advices of the Working Group Meetings and the Member Countries can submit projects in Islamic finance next two years.

7. Success Stories of the Member States

7.1. Iran

Mr. Reza Bafekr DOOSTABAD, Area manager at the Central Bank of Iran made a presentation on the Islamic Finance in Iran. At the outset of his presentation, Mr. DOOSTABAD gave historical background of Islamic finance in Iran. He stated that after the revolution there was a demand from society to change the management of the economy, and specifically the banking system to comply with Islamic measures.

He stated that institutionalization of Islamic finance was carried under two rounds. At the first round, in 1979, Islamic Economy Organization was founded by the high authorities of the government. It was as a bank in nature. He added that when this institution was founded there was no Islamic law in Iran. It has governed the respective sector to the present. The first Islamic law was approved in 1983 namely the Law of Riba Free Banking Operation which was the fundamental law of banking system and finance in Iran. Mr. DOOSTABAD shared some details about the mentioned law which determines the functions of the banking system as "Opening Gharz-ol-hasana accounts (Riba-free)" and "Lending Riba-free loans and facilities". The law explains the functions of Central Bank of the Islamic Republic of Iran as in providing some arrangements and measures for participation of banks in Mosharaka and Mozaraba contracts. The Central Bank and commercial banks are explicitly prohibited from entering into the banking with interest (usury) by the Law of Riba Free Banking Operation.

He underlined that, the Islamic financial system in Iran stands on the pillars of Riba-free banking and participation (Mosharaka) contracts. He stated that Iran's financial system is now developing Islamic financial instruments (Istisna', Ijara and so on) and cooperates with respective Islamic organizations (IDB, IFSB etc.).

7.2. Turkey

Mr. M. Alper BATUR, Head of Department at the General Directorate of Financial Sector Relations and Exchange in the Undersecretariat of Treasury, made a presentation on participation (Islamic) finance architecture in Turkey.

At the beginning of his presentation, he presented a scheme that shows the Islamic financial sub-sectors and the authorities which regulate and supervise them. In this sense, he said that the regulation and supervision of lease certificates (Sukuk), collective investment schemes and Participation Index are under the responsibility of Capital Markets Board of Turkey. Banking Regulation and Supervision Agency regulate and supervise the banking sector, including participation banks. Undersecretariat of Treasury is the sole authority for sovereign Sukuk issuances. Treasury is also responsible for regulation and supervision of insurance sector, including takaful sector.

Mr. BATUR gave information on the participation banking legal development timeline. He stressed that participation banking was founded in 1983 with the Cabinet Decree for establishing Special Finance House (SFH) in Turkey. In this regard, the first SFH started to operate in 1985. Mr. BATUR stated that a significant amendment was made in 1999 as SFHs were placed under the scope of the Banking Law. He also emphasized that as a milestone for Islamic banking in Turkey, SFHs were transformed into the participation banks in the new

Banking Law in 2005. Having been identified as a bank in the Banking Law, participation banks showed a tremendous growth performance during the last decade. In this sense, Mr. BATUR informed the participants about the assets and credit growth of the participation banks between 2005 and August 2016 and showed an asset growth comparison of participation banks and conventional banks. He said that the market share of participation banks reached to 5.1 percent in 2015.

On the topic of the lease certificate, Mr. BATUR specified the legal development that began with a Communiqué published in 2010. He summarized the legal amendments for introducing of new Sukuk types and amendments for enabling sovereign Sukuk issuances. He also emphasized that a new law passed from parliament in August 2016 which provide tax neutrality for all types of Sukuk. He also informed the participants about the sovereign and corporate Sukuk issuances. As of September 2016, Treasury have made 11 issuances in local market and 4 issuances in international market and total sovereign Sukuk issuances reached to TRY 26.8 billion. On the other hand, corporate Sukuk issuances exceeded USD 5.5 billion as the end of 2015.

Mr. BATUR gave information on Central Bank of the Republic of Turkey (CBRT) liquidity facilities for participation banks. He stated that CBRT accept sovereign Sukuk as collateral since 2012 and IILM Sukuk since 2014. CBRT also extended liquidity facilities for participation banks to use of open market operations.

Additionally, Mr. BATUR stated that takaful is an emerging niche for Turkey's insurance sector and there is a huge potential for takaful sector. Although there is no obligation for any takaful model in Turkey, Treasury has ongoing efforts for legislative issues for takaful. Currently, there are 8 takaful companies with 3.75 percent market share in the insurance sector.

At the end of the first part of the presentation, to emphasize the importance of financial consumer protection and financial education for Turkey, Mr. BATUR introduced the Turkey's Financial Inclusion Strategy and briefly informed the participants about the main pillars of it. He stated that strategy, covering 2014-2017, contains two action plans regarding financial consumer protection and financial education. He also touched upon deposit insurance system for banks in Turkey.

At the second part of the presentation, Mr. BATUR mentioned on Istanbul International Financial Center Program Action Plan that covers 2015-2018 period. He summarized the seven components of the plan that includes Component 7: "Strengthening Interest-free Finance and Participation Banking". Then, he elaborated the component that consists of four policies. These are;

- Improving the current perception towards interest-free finance system
- Improving human resources in the interest-free finance sector and enriching the literature
- Developing the corporate structure and the legal infrastructure of the interest-free finance system
- Increasing the diversity of interest-free financial products and services.

At the third part of the presentation, Mr. BATUR introduced to the Interest-Free Finance Coordination Board as an initiative to be highlighted. He said that the Board was established by The Prime Ministry Circular in December 2015. The goal of the

Board is i) to advance sound participation banking and participation insurance as well as interest-free finance system in general and ii) to contribute to Turkey's vision of becoming an international finance center. The Board is chaired by Minister responsible for Undersecretariat of Treasury and composed of:

- Undersecretary of Ministry of Development,
- Undersecretary of Ministry of Finance,
- Undersecretary of Treasury,
- Governor of Central Bank of The Republic of Turkey,
- Chairman of Banking Regulatory and Supervision Agency,
- Chairman of Capital Markets Board of Turkey,
- CEO of Borsa İstanbul,
- Chairman of Participation Banks Association of Turkey,
- Chairman of Participation Insurance Association.

At the last part of the Turkey's presentation, Ms. Elif KÖSOĞLU, fund expert at the Saving Deposit Insurance Fund (SDIF), made a presentation on participation banks and deposit insurance system in Turkey. After summarizing Islamic deposit insurance systems in the world, she stated that there is not a separate deposit insurance system in Turkey and thus participation bank's deposits are insured under the conventional deposit insurance scheme. In 2001, the Special Finance Houses Association (SFHA) and Safety Fund under the SFHA were established. After the transformation of SFHs into the participation banks, Safety Fund was transferred to the SDIF in 2005.

Ms. KÖSOĞLU introduced the deposit insurance mechanism in Turkey. She summarized the operational aspects of the system and informed participants about the sources and uses of deposit insurance fund. She stated that SDIF is applying risk-based premium system and has some risk criteria.

She also touched upon challenges for the deposit insurance fund relating with participation banks. These are:

- Participation banks and deposit banks are subject to the same risk based premium system.
- Participation banks have a small share in the banking sector.
- Currently, insurance premiums collected from participation banks could not be managed under a different pool.
- Limited number of non-interest investment tools. Almost all investments made by SDIF are in lease certificate papers (sukuk) issued by the government.

Question(s) and Comment(s)

Question: The delegate from Azerbaijan asked whether the participation banks in Turkey could be categorized as systemically important for financial system.

Answer: Turkish delegate expressed that none of them could be categorized as systemically important bank.

Question: Prof. Dr. AHMED asked the reason behind the decrease happened in terms of growth of the participation banking sector in 2013.

Answer: Turkish delegate said that the reason behind the decline is the failure in one of the participation bank in Turkey.

8. Perspectives of International Institutions/Private Sector

8.1. Recent Developments in Global Financial Architecture and Implications for Islamic Finance

Mr. Fatih Kazan, Financial Sector Specialist at the World Bank Global Islamic Finance Development Center, made a presentation about recent developments in global financial architecture and their implications for Islamic finance. He talked about the recent developments in the global financial system and explained the roles of World Bank as a global development institution within global financial architecture. He mentioned the several global developments under the macro-prudential regulations, micro-prudential regulations and innovative financial inclusion topics and informed about ongoing G-20 and World Bank initiatives. He expressed that low growth, high inequality, and slow progress on structural reforms are among the key issues on the agenda of G20 and he referred the latest IMF Financial Stability Report which mentions that global financial system is still weak because of high level of debt, slow growth, lack of global cooperation on regulatory and policy issues.

Mr. Kazan continued his presentation by explaining the impacts of recent global developments on Islamic finance within the following considerations:

- Adoption and Implementation of the Standards
- Supervisory governance and reforms
- Shadow Banking
- Basel III Implications
- Collaboration
- Financial Inclusion

Mr. Kazan expressed that although Islamic regulatory bodies and standard setters have created principles and detailed technical standards, there is further scope for their implementation by national authorities. He informed that there is a joint IDBG-WBG project to develop assessment and stress testing tools for Islamic financial institutions integrated with future Financial Sector Assessment Programs (FSAPs) and it will help the implementation of these standards when completed. He also explained that shadow banking and fintech systems are highly related to Islamic finance, therefore regulators and Islamic financial institutions should be ready for those developments.

At the end of his presentation, Mr. Kazan underlined the importance of Islamic finance and sukuk as an infrastructure financing tool on the G20 agenda to get Islamic finance better integrated within global financial system and get support from international stakeholders. Finally, he emphasized the need for close cooperation among the international institutions to develop Islamic finance.

8.2. Improving Islamic Financial Architecture: The Experience of AAOIFI

Dr. Hamed Hasan MERAH, Secretary General of AAOIFI, made a presentation about improving Islamic financial architecture, taking AAOIFI's perspective into consideration. He commenced by shedding light on the history and timeline of AAOIFI, as the leading international not-for-profit organization primarily responsible for development and issuance of standards for the global Islamic finance industry. He stated that the total number of standards issued by AAOIFI so far stands at 95 in the areas of Shari'a, accounting, auditing, ethics and governance for international Islamic finance, adding that AAOIFI is supported by over 200 institutional members, including central banks and regulatory authorities, financial institutions, accounting and auditing firms, and legal firms, from over 45 countries. He discussed its role as the standard setter for the Islamic finance industry which is manifested in its standards being currently followed by all the leading Islamic financial institutions across the world and have introduced a progressive degree of harmonisation of international Islamic finance practices.

Dr. Merah underlined that amongst the factors contributing to the strength and wide spread of AAOIFI's standards is the meticulous development cycle which each and every standard passes through. This cycle consists of more than 10 stages, where a great deal of time and efforts is expensed, and to an extent exceeding what could have been done at country-level. Furthermore, AAOIFI's standards are globally recognized thanks to the efforts and expertise of the persons in charge of standards development, as well as the many subcommittees and working groups involved in the process, where a long time is invested to develop a given standard in order to assure comprehensiveness, depth, and globality, drawing on experiences of various countries and geographical regions across the world. He also stressed that the genuine fruit of all these efforts and substantial investments in time and funds for standards development would have not ripened without recognition and adoption of these standards by central banks and regulatory authorities (both for the banking sector and capital markets) which made these standards mandatory in their own countries and jurisdictions. He highlighted that the positive results of such adoption are countless, both internationally and at country level, and in many facets including: savings on time, efforts, and funds, removal of worthless redundancies and overlaps, achievement of higher levels of professionalism, harmony and consistency, enhancement of credibility of, and confidence in, the industry, at global level, with respect to international institutions and for cross-border transactions and products, such as Sukuk denominated in foreign currencies and listed on international exchanges, which are designed to target foreign investors.

On a different note, Dr. Merah stated that the adoption and mandatory enforcement of AAOIFI's standards by central banks and regulatory and supervisory authorities neither overlooks the distinctiveness and uniqueness of countries, whether in relation to taxes, laws, or accounting treatments, nor gives rise to any prejudice to the schools of Islamic law officially embraced by such countries. Many countries adopt international standards in other areas such as Basel standards on risk and prudential issues, and this did not underrate the distinctive experiences of these countries. Likewise, the adoption of AAOIFI's standards on a mandatory basis does not mean that the existence of national technical boards and bodies in areas of accounting and Shari'ah is unessential or dispensable. To the contrary, the application of AAOIFI's standards requires calculated efforts at the national level to adapt such standards in view of the realities on the ground. Similarly, it is greatly important to reaffirm that AAOIFI's methodology with respect to standards development takes into consideration the varying experiences of countries and markets and allow for a degree of flexibility in interpretation and adaptation in order to cater to the diverse requirements of these countries. In this regard, it would be to the benefit of all parties concerned, nationally and internationally, that a decision could be taken to mandatorily adopt AAOIFI's standards and to mobilize the efforts of regulators or centralized Shari'ah boards or national accounting setters towards issuance of procedural guidelines and resolutions on implementation of AAOIFI's standards and adaptation of these standards to account for distinct national realties.

He also discussed the focus areas within the Islamic finance architecture including a robust, sound and stable architectural design to support development of Islamic finance industry, and the need to strengthen linkage between financial services and economic development, where AAOIFI plays a great role. He stressed that AAOIFI's standards largely contribute towards achievement of the objectives of IFIs and their customers, investors, and users of their financial statements, which positively impacts the broader Islamic financial sector and economy. According to Dr. Merah, the main areas of contributions include: considering the idiosyncratic nature of Islamic finance, harmonization and standardization, integration with international standards, and catering to the ever-growing needs of the Islamic finance industry. AAOIFI's standards reflect its stance on consideration of the idiosyncratic nature of Islamic finance, insofar as the international accounting standards (IASB) cover a wide array of products and transactions, but are unable to address the idiosyncratic nature of Islamic finance products such as Sukuk, Salam, Istisna'a, Murabahah, Ijarah, as well as specific nature calculations such as profit and loss distribution, Zakah, etc. Likewise, certain accounting requirements of Islamic banking operations are not covered by the international accounting standards, and certain contractual requirements arising from Shari'ah compliance are not handled by international standards. With respect to harmonization and standardization, the adoption of different sets of standards certainly leads to different treatments, particularly in terms of recognition, measurement and disclosure. For example, Murabahah, from the perspective of Shari'ah, belongs to the broader category of trading contracts (sales), while under conventional accounting regimes, it is categorized as interest-bearing loan, and this profoundly impacts its accounting treatment. Furthermore, AAOIFI's standards provide for integration with international standards, which may be applied by IFIs where no compromise on Shari'ah rulings and requirements occurs. AAOIFI standards and international standards may complement each other by removal of overlapping, redundancy, and Shari'ah-incompatible treatments and practices. Last, but importantly, AAOIFI's standards cater to the ever-growing needs of the industry, as AAOIFI exerts unwavering efforts to address the expanding needs of the Islamic finance industry, both in terms of continuous development and improvement of the standards. The industry has been on an ascending trajectory, geographically, and sector-wise. In this respect, AAOIFI has crafted an ambitious plan to develop new standards and to review existing ones to keep up with market expectations and also to cope with a rapidly changing environment. Dr. Merah gave examples on new projects in the pipeline such as Shari'ah standards on repurchase agreement, sale of debt (Ba'i al-Dain), gold and its trading controls, Muzara'ah, Mugharasah, commissions and fees, forward Ijarah, and purification of impermissible gains. New projects on accounting standards include Murabahah and deferred payment sales, Sukuk, Wa'ad and Khayar (Islamic Derivatives), Wakalah, Ijarah, impairment, expected losses, provisions and reserves, and Zakah. On the side of governance standards, prospective projects include Centralized Shari'ah Boards (CSB), external Shari'ah audit, internal Shari'ah audit, Shari'ah compliance function, Shari'ah compliance and fiduciary ratings for IFIs, and ethical standards including a comprehensive ethics and code of conduct.

Dr. Merah projected the way forward in a set of actions such as a wider adoption of AAOIFI's standards by countries and jurisdictions, improved involvement of regulators with AAOIFI's standard setting process, more integration with the broader financial system, promotion of real-economy activities, in line with Shari'ah objectives including promotion of IFIs for involvement in asset administration rather than focusing solely on financial intermediation, and lastly but importantly increased standardization of products and practices.

8.3. Improving Islamic Financial Architecture: Perspective of Private Sector

Mr. Mustafa ÇETİN, senior vice president and head of Financial Institutions and Investor Relations department, Albaraka Turk Participation Bank, made a presentation on Islamic Finance Developments in Turkey. At the outset, Mr. ÇETİN mentioned that spread of Islamic Finance to all over the world. He underlined that growth of Islamic Finance is much more than conventional banking and it has the currently spreading niche market in most of the world.

He expressed that it is not all the time necessary to start with changing law first while introducing the Islamic finance in the country. He highlighted that the first step is to understand that how things work before changing the legal and regulatory framework. He added that if a country has a sound idea, such as having a strategy to develop Islamic Finance sector, it could change the law.

Mr. ÇETİN presented the components of an Islamic finance enabling environment. He highlighted that ensuring robust Islamic financial transactions, products and services require three major elements to be working in harmony:

- Sharia'a compliancy
- Legal enforceability
- Commercial viability

Mr. ÇETİN expressed characteristics of Banking System and Regulatory environment in Turkey. He underlined the perspective of Participation banks (Islamic Banks) and expressed the characteristics of legal and regulatory framework and common hurdles for Islamic finance. Mr. ÇETİN argued that different countries need different approaches to develop Islamic finance.

Mr. ÇETİN gave same information on the product based developments.

- A workshop is performed about Funding Angel Investor projects by Mudaraba and Musharaka
- Meetings with Treasury, Capital Market Board and Borsa Istanbul
- Information about WPI-CPI index Sukuk Issuance
- Increasing private Sector Sukuk, Diversifying publicly traded sukuks at Borsa Istanbul
- Product Development Committee has prepared Product reports
- Meeting about Commodity Usury Platform with Borsa Istanbul

Mr. ÇETİN has underlined the importance of education and human research developments on Islamic Finance and mentioned about the research centers and academic works in Turkey

Mr. Mustafa ÇETİN has concluded his presentation with the factors need to be engaged to bring success.

8.4. Improving Islamic Financial Architecture: The Role of IDB

Mr. Haseebullah SIDDIQUI, Lead Specialist, Advisory and Technical Assistance in IRTI, IDB Group, thanked the COMCEC Secretariat for choosing an extremely critical theme for this session and successfully bringing together various institutions and experts for deliberations.

He hoped that the recommendations put forth from this session for approval of the Ministerial Session will go a long way in cementing the role of the Financial Cooperation Working Group in development of Islamic finance.

He made a presentation about IDB's role in developing the global architecture for Islamic financial services. He presented the details, activities and accomplishments of IDB Group which have been targeted at, or carried out in cooperation with specific member countries and their institutions, with Islamic Infrastructure Institutions and global standard setting bodies, with other multilateral development agencies, and with regional cooperation bodies.

Mr. SIDDIQUI elaborated that such support and assistance has been provided in the form of main programs such as Technical Support Program and Islamic Finance Architecture Development Program. He also explained the process of selection, approval and implementation of such projects.

The next section of the presentation has directly focused on the various projects completed over the recent years in particular the contribution of IDB Group in support of the work carried out by the Islamic Infrastructure Institutions such as IFSB, AAOIFI, IIFM, IICRA, IIRA, and CIBAFI, in terms of developing standards, guidance notes, surveys and research papers. He said that supporting the activities of these institutions is of critical importance to the development of the industry and forms the backbone of the financial services architecture. He stated that IDB Group is proud to have been instrumental in the establishment of, and is a founding member of, each of these institutions.

Lastly, Mr. SIDDIQUI recognized the headwinds in further development of the Islamic financial services architecture in the rapidly evolving global financial architecture, how Islamic finance will have to find and retain its space within the bigger picture, and contribute meaningfully towards this evolution to remain relevant.

Question(s) and Comment(s)

Question: How AAOIFI evaluates the governance standards of Islamic financial architecture?

Answer: Dr. Merah, Secretary General of AAOIFI expressed that AAOIFI made a Swot analyses in 2015. He mentioned that the credibility of industry is a real challenge on improving industry and added that enhancing the Shariah governance is very crucial and urgent. He stated that, considering above issue, AAOIFI has an addicted board to Shariah Standards. He mentioned that AAOIFI standards are international standards and keep acceptable room for the Member countries. He underlined that AAOIFI consider the balance between academic scholars and industrial scholars in Shariah Board of AAOIFI.

Comment: Delegate of Uganda gave some information about technical assistance program provided by IDB to Central Bank of Uganda and expressed their sincere thanks to IDB for their contribution for enhancing the industry in Uganda. He also invited the Member countries to use the facilities provided by IDB as well as CCO to improve the Islamic finance industry in their respective countries.

9. Closing Remarks

The Meeting ended with closing remarks of Mr. Mirgani Abdella GLOOD INDILA, Director, Ministry of Finance and Economic Planning of Sudan and the Chairman of the Meeting and Mr. M. Metin EKER, Director General of the COMCEC Coordination Office.

In his closing remarks, Mr. EKER informed the participants that the 8th Meeting of the COMCEC Financial Cooperation Working Group will be held on March 30th, 2017 in Ankara with the theme of "Improving Public Debt Management in the OIC Member Countries". He also noted that the 9th Meeting of the COMCEC Financial Cooperation Working Group will be held on October 2017 in Ankara with the theme of "Diversification of the Islamic Financial Instruments". He stated that research reports will also be prepared on these themes and shared with the focal points and other participants at least one month before the meetings.

Annex 1: Agenda of the Meeting

AGENDA

OF THE 7TH MEETING OF THE COMCEC

FINANCIAL COOPERATION WORKING GROUP

20 October 2016 Ankara, Turkey

National and Global Islamic Financial Architecture:
Problems and Possible Solutions for the OIC Member Countries"

Opening Remarks

1. Financial Outlook of the OIC Member Countries

2. Islamic Financial Architecture: Key Components and Framework

3. Islamic Financial Architecture in the OIC Member Countries: Current Situation, Main Challenges, Recommendations and Prospects

4. Policy Options for Improving Islamic Financial Architecture in the OIC Member Countries

5. Utilizing the COMCEC Project Funding

6. Success Stories of the Member States

7. Perspective of International Institutions and Private Sector

Closing Remarks

Annex 2: Program of the Meeting

7th MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP
(October 20th, 2016, Crowne Plaza Hotel, Ankara)

"National and Global Islamic Financial Architecture:

Problems and Solutions for the OIC Member Countries"

PROGRAMME

08.30-09.00 **Registration**

09.00-09.05 **Recitation from the Holy Quran**

09.05-09.15 **Opening Remarks**

09.15-09.35 **Financial Outlook of the OIC Member Countries**

- *Presentation: Mr. Alper BAKDUR*
  Financial Sector Specialist
  COMCEC Coordination Office (CCO)

09.35-09.45 - *Discussion*

09.45-10.05 **Islamic Financial Architecture: Key Components and Framework**

- *Presentation: Prof. Dr. Habib AHMED*
  Durham University

10.05-10.30 - *Discussion*

10.30-10.45 *Coffee Break*

10.45-11.30 **Islamic Financial Architecture in the OIC Member Countries: Current Situation, Main Challenges, Recommendations and Prospects**

- *Presentation: Prof. Dr. Habib AHMED*
  Durham University

11.30-12.30 - *Discussion*

12.30-14.00 *Lunch*

14.00-14.15 **Policy Options for Improving Islamic Financial Architecture in the OIC Member Countries**

There will be a moderation session under this agenda item. The participants are expected to deliberate on the policy options/advices for Improving Islamic Financial Architecture in the Member Countries. At the beginning of the session, CCO will make a short presentation introducing the responses of the Member Countries to the policy questions which have been shared with the Financial Cooperation Working Group Focal Points.

Moderated by Dr. Hamed MERAH
Secretary General
AAOIFI

- *Presentation: "Responses of the Member Countries to the Policy Questions on Islamic Financial Architecture"*

Mr. Okan POLAT
Expert
COMCEC Coordination Office

14.15-15.30 - *Discussion*

15.30-15.45 **Utilizing the COMCEC Project Funding**

- *Presentation: Mr. Hasan YENİGÜL*
  Expert
  COMCEC Coordination Office (CCO)

15.45-16.00 - *Discussion*

16.00-16.15 *Coffee Break*

16.15-17.15 **Success Stories of the Member States**

- *Presentation(s)*
- *Discussion*

17.15-17.30 **Perspective of International Institutions and Private Sector**

- *Presentation: "Recent Developments in Global Financial Architecture and Implications for Islamic Finance"*

  Mr. Fatih KAZAN
  Financial Sector Specialist
  World Bank Global Islamic Finance Development Center

17.30-17.45 - *Presentation: "Improving Islamic Financial Architecture: The Experience of AAOIFI"*

  Dr. Hamed MERAH
  Secretary General
  AAOIFI

17.45-18.00 - *Presentation: "Improving Islamic Financial Architecture: Perspective of Private Sector*

  Mr. Mustafa ÇETİN
  Senior Vice President & Head/ Albaraka Turk
  TKBB

18.00-18.15 - *Presentation: "Improving Islamic Financial Architecture: The Role of IDB"*

  Mr. Haseeb SIDDIQUI
  Lead Specialist
  IDB Group

18.15-18.30 - *Discussion*

18.30-18.45 *Closing Remarks*

Annex 3: The Policy Recommendations

**POLICY RECOMMENDATIONS OF THE
7th MEETING OF THE FINANCIAL COOPERATION WORKING GROUP**

The COMCEC Financial Cooperation Working Group (FCWG) successfully held its 7th Meeting on October 20th, 2016 in Ankara / Turkey with the theme of "National and Global Islamic Financial Architecture: Problems and Possible Solutions for the OIC Member Countries". During the Meeting, the participants discussed some crucial policy issues in light of the main findings of the research report prepared specifically for the Meeting and the responses of the Member Countries to the policy questions that were sent by the CCO in advance of the Meeting. Accordingly, the working group has come up with the policy advices below.

Policy Advice 1: Developing/ Supporting Legal Framework for Islamic Finance by Reviewing Islamic financial laws, tax regimes, dispute settlement framework and bankruptcy law

<u>Rationale:</u> As financial sectors are bound by laws and regulations, it is vital to support legal infrastructure for different Islamic financial sectors. Various segments of the Islamic financial sector (banking, takaful and capital markets) would need enabling legal environment for their operations and reducing legal risks. Furthermore, there are tax implications for Islamic financial products as they are subject to real transactions such as sale, leasing and partnerships in projects. The tax laws related to income (profit, withholding), transactions (capital gains and stamp duties) and goods and services (value-added tax) need to be adjusted for tax neutrality. Furthermore, as civil courts in most OIC member countries use either the common law or civil laws to settle disputes, there is a need to address the dispute resolution framework for cases involving Islamic finance. This can be done by either having a separate Shariah bench within the civil courts or referring the Shariah issues to an external Shariah board or authority for advice. Alternatively, arbitration centers that use Islamic law to settle cases can be used for disputes arising in the Islamic financial sector. Finally an Islamic bankruptcy legal framework that can deal with insolvencies and resolutions involving the Islamic financial sector is needed to mitigate legal risks.

Policy Advice 2: Developing Necessary Regulatory and Supervisory Institutional Framework for the Islamic Financial Services Industries (IFSI) through Adopting Standards Developed by Islamic Financial Architecture Institutions and Improving the National Framework

<u>Rationale:</u> As the introduction of Shariah principles changes the nature risks and return of Islamic financial transactions compared to their conventional counterparts, the regulatory treatment of the former would be different compared to the latter. As such, there is a need to come up with a sound regulatory framework for Islamic banking, takaful and capital markets. In this regard, the regulatory standards developed by Islamic finance standards setting bodies including IFSB and AAOIFI. In countries in which the Islamic financial sector becomes larger and systematically important, there should be separate regulatory departments/units to deal with the issues arising in the various Islamic financial sectors. To mitigate regulatory arbitrage, the licensing and regulatory requirements of conventional and Islamic banks should be clearly defined and applied.

Policy Advice 3: Establishing a Sound Governance Framework by Introducing the Requirement of Shariah Governance at the Financial Institution Level in Islamic Financial Laws and in Regulations

Rationale: As Shariah compliance is the key distinguishing feature of Islamic finance, there is a need to have a Shariah governance framework to ensure that the products and operations of Islamic financial institutions do not contradict the principles of the Shariah. One of the key elements of ensuring a sound Shariah governance framework is to make it a legal/regulatory requirement. This can be done by introducing the requirement of Shariah governance at the financial institution level in Islamic financial laws or in regulations. The regulators can come up with specific Shariah governance guidelines that banks are required to follow. Among others, this should include the requirement of Shariah audit to ensure that all the operations of financial institutions are in compliance with Shariah. Furthermore, existence of an independent national advisory body can help harmonize the Shariah rulings and minimize diversity of fatwas that introduces legal and reputational risks. The national advisory board can be established by the regulators. One of the roles of the national level advisory board is to come up with Shariah parameters or standards for different Islamic financial products. This will add to the harmonization of Islamic financial practices within the jurisdiction and also reduce the costs of Shariah governance at the organizational levels.

Policy Advice 4: Enhancing Consumer Protection and Financial Education through Ensuring Full Disclosure in Islamic Finance Contracts and Having Financial Education Programs to Increase Awareness and the Level of Understanding of Islamic Financial Transactions

Rationale: A robust consumer protection regime is necessary for the development of a sound financial system. As Islamic financial products confer various rights and obligations to different parties of the contract, the laws and regulations must require that these specific rights are protected. Among others, information disclosure on the contracts used and their structures should be disclosed to consumers. As many consumers choose Islamic finance due to religious convictions, one of the key issues in protecting consumers of the Islamic financial sector would be to not only ensure Shariah compliance but its full disclosure. A related issue on the demand side is to have financial literacy programs to increase awareness and the level of understanding of Islamic financial transactions. Islamic financial products are new for consumer in most jurisdictions and there is a need to educate the consumers about the features of these products. Other than introducing the Islamic finance concepts in school and college curricula, different stakeholders such as regulators, financial institutions, and Islamic finance trade associations can use various methods to disseminate knowledge on Islamic financial products and services.

Policy Advice 5: Developing Liquidity Infrastructure for Islamic Financial Sector by Issuing Shariah Compliant Liquidity Instruments, Developing an Active Islamic Money Market and Ensuring Lender of the Last Resort to Offer Shariah Compliant Facilities

Rationale: Most financial institutions require liquidity facilities that they can tap into in cases of need. The liquidity infrastructure can be strengthened by providing Shariah compliant instruments, markets and the facilities for Islamic financial institutions. This would require developing and issuing Shariah compliant liquidity instruments that Islamic financial institutions can use either to place surplus funds or acquire funds when necessary. There may be a need to come up with Shariah compliant liquid instruments that satisfy conditions of High Quality Liquid Assets of the new Basel III liquidity requirements. These liquidity instruments can be issued either by the government or financial institutions. There is also a need to develop an active money market that would use some of these instruments to meet the short-term liquidity needs in an organized way. This platform can be established by the government in the countries where Islamic finance is in the initial stages of development. Finally, Shariah complaint lender of the last resort would be required so that Islamic financial institutions can benefit from the liquidity facility in case of emergencies.

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 calls for projects 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 the above- mentioned policy areas, the member countries can utilize the COMCEC Project Funding and the COMCEC Coordination Office may finance the successful projects in this regard. These projects may include organization of seminars, training programs, study visits, exchange of experts, workshops and preparing of analytical studies, needs assessments and training materials/documents, etc.

Annex 4: List of Participants

7th MEETING OF THE FINANCIAL COOPERATION WORKING GROUP
20 October 2016, Ankara

A. MEMBER COUNTRIES OF THE OIC

ISLAMIC REPUBLIC OF AFGHANISTAN

- Mr. AHMAD SAEED ASLAM
  Sr. Financial Management Specialist, Ministry of Finance

- Mr. MIR AHMAD FROUGH KAIFER
  Aid Management Sr. Specialist, Ministry of Finance

PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA

- Mr. DJAMEL ADOUANE
  Deputy Director, Ministry of Finance

REPUBLIC OF AZERBAIJAN

- Mr. ZAKA MIRZAYEV
  Deputy Head, Ministry of Finance

BURKINA FASO

- Mr. AMIDOU OUEDRAOGO
  Director of Bilateral Cooperation, Ministry of Economy, Finance and Development

REPUBLIC OF CAMEROON

- Mr. DONATUS EKURI ARONGAGBOR
  Inspector of Treasury, Ministry of Finance

REPUBLIC OF COTE D'IVOIRE

- Ms. MINAFOU FANTA COULIBALY
  Special Advisor to the Minister, Ministry of Finance

- Mr. WOTOUMO MELESSI MORIGBEY FANNY
  Research Officer, Ministry of Finance

REPUBLIC OF GABON

- Mr. IFOUNGA THIBAULT
  Chief of Protocol, Embassy of Gabon

ISLAMIC REPUBLIC OF IRAN

- Mr. REZA BAFEKR DOOSTABAD
  Central Bank of I.R of Iran (CBI), Area Manager

- Mr. AHMAD SHAKOURI
  Senior Expert, Ministry of Economic Affairs and Finance

THE STATE OF KUWAIT

- Mr. SAAD ALRASHIDI
  Head of the OIC Affairs, Ministry of Finance

THE STATE OF PALESTINE

- Mr. LOAI ABUHARB
  Director, Ministry of Finance

- Ms. SHAFIQA ALQAWASMI
  Deputy General Manager, Ministry of Finance

REPUBLIC OF SENEGAL

- Mr. MAME ALASSANE SENE
  Loaded Programs, Ministry of Finance

REPUBLIC OF SUDAN

- Mr. MIRGANI ABDELLA GLOOD INDILA
  Director, Ministry of Finance and Economic Planning

REPUBLIC OF TUNISIA

- Mr. BECHIR GHARBI
  Deputy Director, Ministry of Finance

REPUBLIC OF TURKEY

- Mr. MEHMET ALPER BATUR
  Head of Department, Undersecretariat of Treasury

- Mr. YUSUF DEMET
  Expert, Undersecretariat of Treasury

- Ms. ELİF KÖSEOĞLU
  Expert, Undersecretariat of Treasury

- Mr. DURMUŞ ALİ TAŞDEMİR
  Assistant Expert, Undersecretariat of Treasury

- Mr. YASİN LAÇİNBALA
  Assistant Expert, Undersecretariat of Treasury

- Mr. ERHAN AKKAYA
  Assistant Expert, Undersecretariat of Treasury

REPUBLIC OF UGANDA

- Mr. COLLINS ISHIMWE
  Ag. Senior Economist, Ministry of Finance, Planning and Economic Development

B. <u>THE OIC SUBSIDIARY ORGANS</u>

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

- Mr. ABDULHAMİT ÖZTÜRK
  Expert

- Mr. DAVRON ISHNAZAROV
  Research

C. <u>SPECIALIZED ORGANS OF THE OIC</u>

ISLAMIC DEVELOPMENT BANK(IDB)

- Mr. HASEEB SIDDIQUI
  Lead Specialist, Islamic Development Bank

D. <u>INVITED INSTITUTIONS</u>

AAOIFI

- Dr. HAMED MERAH
  Secretary General

- Mr. KHALED MOHAMAD
  PR Manager

SECRETARIAT OF OIC MEMBER STATES' STOCK EXCHANGES FORUM

- Ms. ELİF AÇIKPORTALI
  Expert, Borsa İstanbul

DURHAM UNIVERSITY

- Dr. HABIB AHMED
  Professor

SECRETARIAT OF COMCEC CAPITAL MARKETS' REGULATORS FORUM

- Ms. SEÇİL SAYIN
  Chief Expert, SPK

PARTICIPATION BANK ASSOCIATION OF TURKEY

- Mr. MUSTAFA ÇETİN
  Senior Vice President and Head, Financial Institutions and Investor Relations Departments
  Albaraka Turk Participation Bank

WORLD BANK GLOBAL ISLAMIC FINANCE DEVELOPMENT CENTER

- Mr. FATİH KAZAN
  Financial Sector Specialist

E. <u>COMCEC COORDINATION OFFICE</u>

- Mr. M. METİN EKER
  Director General, Head of COMCEC Coordination Office

- Mr. MUSTAFA TEKİN
  Director

- Mr. Gökten DAMAR
  Expert

- ALPER BAKDUR
  Financial Sector Specialist

- Mr. OKAN POLAT
  Expert

- Mr. Hasan YENİGÜL
  Expert

- Mr. Eren SÜMER
  Expert

- Mr. Fazıl ALATA
  Expert
