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

Proceedings of the 4th Meeting of the COMCEC Financial Cooperation Working Group

"IMPROVING BANKING SUPERVISORY MECHANISMS IN THE OIC MEMBER COUNTRIES"

COMCEC COORDINATION OFFICE
April 2015

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PROCEEDINGS OF THE 4TH MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP

ON

"Improving Banking Supervisory Mechanisms in the OIC Member Countries"
(March 19th, 2015, Ankara, Turkey)

COMCEC COORDINATION OFFICE
April 2015

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Introduction

The 4th Meeting of the COMCEC Financial Cooperation Working Group was held on March 19th, 2015 in Ankara, Turkey with the theme of "Improving Banking Supervision Mechanisms in the OIC Member Countries."

The Meeting was attended by the representatives of 19 Member States, which have notified their focal points for the Financial Working Group namely Bangladesh, Benin, Burkina Faso, Cameroon, Gambia, Iran, Iraq, Jordan, Kuwait, Mozambique, Niger, Pakistan, Palestine, Qatar, Sudan, Togo, Tunisia, Turkey And Uganda. Representatives of COMCEC Coordination Office, Islamic Development Bank Group (IDB), SESRIC, Secretariat of the OIC Member States' Stock Exchanges Forum, Secretariat of the COMCEC Capital Markets Regulators Forum , World Bank Global Islamic Finance Development Center Turkey have also attended the Meeting.[1]

The Meeting considered the supervisory framework of the Banking Sector in the Member Countries, the challenges faced and the policy options to address these challenges, and the analytical study titled “"Improving Banking Supervision Mechanisms in the OIC Member Countries” which was prepared by the COMCEC Coordination Office especially for the Meeting with a view to enriching the discussions.

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

1. Opening Session

The Meeting has started with the recitation from Holy Quran in line with the tradition of the Organization of the Islamic Cooperation (OIC). At the outset, Mr. M. Metin EKER, Director General of the COMCEC Coordination Office, welcomed all the participants to the Fourth Meeting of the COMCEC Financial Cooperation Working Group and shortly introduced the COMCEC, which has been working towards enhancing economic and commercial cooperation among the 57 member countries for 30 years and the COMCEC Working Group Mechanism as one of the important implementation mechanisms of the COMCEC Strategy.

In his opening remarks, Mr. EKER pointed out that the year 2013 and 2014 became milestones for the COMCEC in terms of the implementation of COMCEC Strategy. The COMCEC Strategy aims to make this organization as a platform where the Member States produce knowledge, share experiences and try to approximate policies in light of the core principles such as enhancing mobility, strengthening solidarity and improving governance. In doing so, he also stated that the Working Groups and Project Funding Mechanism play a crucial role for bringing together the experts from the Member Countries regularly and realizing the tangible projects.

Mr. EKER also mentioned that as the Financial Working Group, in the previous meetings, three important topics were considered namely "Enhancing Capital Flows among the Member Countries", "Enhancing Financial Inclusion in the Member Countries" and "Risk Management in Islamic Financial Instruments" respectively. He stressed that a research report titled "Improving Banking Supervisory Mechanisms in the OIC Member Countries" has been prepared for the 4th Financial Cooperation Working Group Meeting specifically for enriching the discussions. In this regard, he underlined that the 2008 crisis demonstrated once again the importance of the banking sector for the economy and the vital role of efficient supervision of the banking system to enhance the resilience of banks during times of strains and volatile macroeconomic conditions.

He also indicated that according to World Bank Regulation and Supervision Surveys, despite the decline after the crisis period, the average degree of the power of the supervisory authorities in member countries is close to the EU-27 average and slightly below the average for US. Meanwhile, the average degree of the independence of supervisory authority of the member countries increased after the crisis. In this respect, he emphasized the importance of the Islamic Banking for our Member Countries which has various rules and regulations making it mostly immune to potential crises and turbulences and he stressed that we need a suitable framework and supervisory mechanisms for realizing its full potentials.

After the opening remarks of Mr. EKER, Mr. Shaukat ZAMAN, the Director at State Bank of Pakistan (SBP), was elected as the Chairman of the Meeting. At the outset, Mr. ZAMAN welcomed the all participants to the 4th Meeting of the Financial Cooperation Working Group and expressed his thanks to them for electing him as the Chairman of this Meeting. He stated that the supervisory mechanism as the theme of the Meeting is an important topic to inspect and regulate the banking sector in order to prevent financial crisis and sharp fluctuations as well as providing financial stability in the Member Countries. Then Mr. ZAMAN introduced the agenda of the Meeting and opened the working session.

2. The COMCEC Financial Outlook 2015

Mr. Utku ŞEN, expert from the COMCEC Coordination Office presented some of the key findings of the Financial Outlook of the OIC Member Countries. In the presentation, Mr. ŞEN focused on the recent financial developments in the global financial system and financial outlook of the OIC Member Countries.

Mr. ŞEN stated that the global economy had continued to rely on accommodative monetary policies in U.S. and Euro Area after the crisis to support domestic demand, to encourage corporate investment and to facilitate balance sheet repairing. These monetary policies created two types of risks: Economic risk taking and financial risk taking. He argued that economic risk taking is substantially critical to support the economy in advanced countries in the form of increased household demand and greater willingness to invest in the economy. On the other hand, developing economies and emerging markets benefited from financial risk taking by drawing portfolios and investment to their countries. Thus, they ended up with asset and currency appreciation and less volatile financial markets.

He mentioned that after the end of accommodative monetary policies in U.S., global financial conditions tightened, financial stability risks increased in emerging markets as well as liquidity and market risks. He expressed that, in addition to stability risks, capital outflows, falling commodity prices, increasing interest rates and inflation, and geopolitical risks made emerging markets more vulnerable to the financial shocks.

He gave brief information about recent economic and financial development in United States, Euro Area and rest of the World. He stated that rising expectations of increasing interest rates in United States and new asset-purchasing program in Euro Area would create an era of strong dollar and weak euro. He also pointed out the possible effects of strengthening dollar, lowering commodity prices, hiking interest rates and local currency depreciations on OIC Member States economies as well as developing countries.

After the summary of the recent financial developments, Mr. ŞEN briefly explained the potential impact of lowering oil prices on both oil exporting and importing countries. Weakening global demand, increasing shale gas production in United States and OPEC decision on maintaining current oil production level are the reasons of lowering oil prices. Thus, oil prices have declined about 55% percent since September 2014. Mr. ŞEN stated that there would be positive and negative impact of low oil prices on both oil exporting and importing countries in the fiscal and external balances, inflation, interest rates, local currency, production cost and households.

Mr. ŞEN summarized the expectations related to the global economic growth. He stated that global growth has been projected to strengthen in 2015 according to both IMF and World Bank despite the concerns about financial environment, lowering commodity prices and weakening global demand, partly because recovery in U.S. and some developed countries. in U.S., growth rate will increase by 3.6% in 2015. In Euro Area, growth will be moderate in 2015 and 2016. In OIC Member States, oil exporting countries will make positive contribution to the OIC economic growth rate despite the low oil prices, thanks to the adequate capital buffers and foreign exchange reserves in these countries. Hence, OIC economic growth will be 5.2% and 5.6% in 2015 and 2016, respectively.

Mr. ŞEN stated that Member States had been classified regarding their income levels and evaluated/analyzed accordingly. 19 countries are in OIC-Low Income Group (OIC-LIG); 15 are in OIC-Lower Middle Income Group (OIC-LMIG); 16 were in OIC-Upper Middle Income Group (OIC-UMIG), and 7 are in OIC-High Income Group (OIC-HIGH). He also evaluated the Member Countries in four fields; namely financial depth, financial access, financial efficiency and financial stability and shared some figures to demonstrate how well financial institutions and markets of these states performed.

With respect to financial depth, Mr. ŞEN demonstrated three indicators: Private Credit to GDP, Bank Deposits to GDP and Stock Capitalization to GDP ratios. In Private Credit to GDP ratio, OIC low income and lower middle income countries are suffering from inadequate access to credits and countries in these groups showed weak performance in 2011. On the other hand, Some OIC countries showed great performance like Malaysia, Maldives, Lebanon, Jordan, Tunisia and Kuwait. But only Malaysia exceeded World high income average regarding private credit to GDP Ratio in 2011.

Mr. ŞEN emphasized the positive relationship between bank deposit and private credit. He stated that the more bank deposits in the banks, the more private credits to the system. He also pointed out the importance of bank deposit level for stimulating investments, mobilizing savings, easing access to finance in the financial system. Regarding bank deposit level, similar with private credit, many OIC Member States do not have adequate bank deposit level except few countries like Malaysia, Lebanon, Jordan and Maldives.

Mr. ŞEN also demonstrated OIC Member States performance on stock market capitalization in 2011. Mr. ŞEN stated that stock markets consist of securities, public and corporate bonds, future and option contracts. It is clear that a well-functioning stock market is also more attractive to foreign investors. Stock market capitalization to GDP ratio is generally low in many OIC Member States except in Malaysia, Jordan, Qatar, Morocco, Kuwait and Saudi Arabia. Mr. ŞEN pointed out that these countries exceeded World high income countries average in this regard.

In terms of financial access, Mr. ŞEN expressed that enhanced access to finance allows individuals and firms to take advantage of business opportunities, invest in education, save for retirement, and insure against risks. In this area, Mr. ŞEN presented two indicators: Adults with an account at a formal financial institution to total adults and adults saving at a financial institution in the past year to total adults in 2011. As expected, both in the two indicators, countries showed similar performances and low and lower middle income countries have low rates in two indicators.

Regarding financial efficiency, Mr. ŞEN stated that efficient financial systems increase economic activity and welfare. Because, lower intermediation cost increase the efficiency of the financial institutions and markets. Also high efficiency in financial markets increases profitability of financial institutions. In the financial efficiency, he presented two indicators: Net interest margin and stock market turnover ratio.

Net interest margin is the difference of the between the interest income generated by financial institutions and the amount of interest paid to the lenders, relative to the amount of assets. Mr. ŞEN highlighted that net interest margin was relatively high in many OIC countries because the lack of financial depth, competitiveness and high intermediation cost. He emphasized that OIC Member States like Sierra Leone, Kyrgyz Republic, Gabon, Chad, Uganda Mozambique, Guinea-Bissau, Nigeria, Gambia and Maldives had higher net interest margin than World low income countries average.

Stock market turnover ratio is calculated by dividing total value of shares traded to average market capitalization. Higher turnover ratio refers to relatively higher volumes of trading in the market with more liquidity. In the analysis of this ratio, Mr. ŞEN stated that many OIC Member States did not show remarkable performance except Bangladesh, Saudi Arabia and Turkey.

Financial stability was also handled by Mr. ŞEN. He expressed that financial stability is a vital condition of a well-functioning financial system on the way of financial development. Financial instability may trigger problems in the financial systems and overall economy. In addition, it is closely related with financial depth, access and efficiency in the financial system. With regard to financial stability, he presented three indicators: Z-score, non-performing loans and capital adequacy ratio.

Mr. ŞEN informed the participants that, regarding the financial stability of financial institutions of Member States, OIC low income countries are more likely to face problems of a default in banking system according to analyzed Z-score values (probability of default of a country's banking system). Furthermore, OIC low and middle income countries have higher NPL (Non-Performing Loans) rates than high income countries. So the risk of insolvency in the banking sector was higher for them. On the other hand, OIC Member States show good performance regarding capital adequacy ratio.

Finally, Mr. ŞEN stated that there was room for improvement in all categories to enhance financial development in the OIC Member States. He concluded his presentation by expressing that improvements are mostly needed in OIC-LIG and OIC-LMIG countries among all country groups while OIC-UMIG and OIC-HIGH countries also needs to make specific regulations in certain categories.

3. Improving Banking Supervisory Mechanisms in the OIC Member Countries

3.1. Recent Developments in the Banking Sector

Mr. Burak SALTOĞLU, a Professor from Boğaziçi University and CEO of Riskturk made two presentations on a joint presentation titled "Improving Banking Supervisory Mechanisms in the OIC Member Countries: Global Financial Markets." In fact, this talk is intended to prepare the technical background to his second talk on supervisory suggestions will be made on the OIC banking. At the outset, Mr. SALTOĞLU explained the details of comprehensive report prepared by a team led by himself with a view to informing the participants. First of all, Mr. SALTOĞLU discussed why banking supervision and regulation is a must for economies to have a sustainable growth. He also discussed the brief causes of the recent credit crisis hit the US economy. He claimed that, banking supervision needs to minimize the moral hazard problems and increase the transparency in the banking sector. After this brief theoretical background, Mr SALTOĞLU has begun to describe the recent global changes and the trends in the banking regulation after BASEL III. Mr. SALTOĞLU presented a concrete outline and a summary of future banking reforms for the OIC member banks. He has summarized the future changes in the new banking regulation with the following headlines.

Expected major changes:

i. The need to improve the quality of bank capital

ii. Dealing with pro-cyclicality: Capital Buffers

iii: More capital penalty for complex derivatives and securitizations

iv. Simple risk measures: leverage ratio

v. Introduction of two new liquidity measures: Liquidity Coverage Ratio (LCR) and Net Stable Funds Ratio (NSFR)

vi. Important changes in trading and use of derivative instruments

vii. A new capital buffer is necessary against counterparty risk

viii. Changes in deposit insurance mechanism

According to Mr. SALTOĞLU, new regulations were a reaction to the recent financial crisis took place in US and Europe. However, those new changes will change the future banking practice radically. Firstly, banking business will require a higher capital to comply with BASEL III changes. Secondly, banking will be performed with a high liquidity. Obtaining the future requirements for liquidity may reshape the bank's asset decomposition. Particularly, the demand for treasury bonds will be higher in the near future. In addition, it was stated that the previous banking regulations enhances the procyclicality. In other words, as economies grow banks do not need to put aside additional capital. However, when the growth rates start to slow banking risks become more apparent. This requires banks to inject capital when the economies are in the recession phase. Therefore, BASEL II regulations were aggravating the financial crisis. However, the new BASEL III intends to overcome this procedure by making the banking regulation to solve the procyclicality problem.

Mr. SALTOĞLU stated that BASEL III aims to focus on macro-prudential regulations to avoid banking and financial crises. Each country may have their own potential financial risks. For some countries credit growth can be a major financial risk for some others it can be current account deficit etc. Each country may use central bank or regulatory tools to mitigate these financial risks before they had a negative impact on the real economy.

Mr. SALTOĞLU has also mentioned the recent developments in the international banking in response to recent regulatory changes. Mr. SALTOĞLU mentioned that, by the Dodd Frank financial law, the federal government has permanently increased bank deposit insurance to 250,000$. Before the financial crisis in US in 2008 this amount was only 100,000 USD. In addition, financial stability board in 2014 has chosen various financial institutions as Global Systemically Important financial Institutions (G-SIFI's). In his presentation Mr. SALTOĞLU mentioned that, there were 5 risk classes for each class of GSIFI's. HSBC and JP Morgan Chase appeared as bucket 4 institutions which are required to have 2.5% surcharge, Barclays, BNP Paribas, Citigroup and Deutsche Bank have been selected as 3rd highest SIFI category causing an additional 2% capital charge to be paid.

Mr. SALTOĞLU has also mentioned that US regulators have adopted the recent changes in leverage ratio. The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) proposed the agencies' leverage ratio standards for large, interconnected U.S. banking organizations. According to this recent regulation, a bank with at least $250 billion in total consolidated assets will have a supplementary leverage ratio of an additional 3% leverage ratio (i.e. twice as much as the BASEL III's minimum level). Finally, Mr. SALTOĞLU mentioned the recent regulatory actions taken in EU, Switzerland and the UK. He particularly stressed that many of the developed economies have empowered their deposit insurance mechanisms both in quantity and quality. In Europe, the newly established banking association EBA, will develop its deposit insurance mechanism for the Euro Zone countries. In the US, as a precautionary response to the recent crisis, the federal government has permanently increased bank deposit insurance to 250,000$. Before the financial crisis in the US this was only 100,000 USD. Mr. SALTOĞLU pointed out that this is an important action taken in enhancing the financial stability in the global banking.

Mr. SALTOĞLU also explained the recent changes in the stress testing methodology in the EU and US. In last June 2014, European banks have gone through a stress testing to analyze which banks might need additional capital. Mr. Saltoğlu told that the stress testing methodology and the assumptions used

Question(s) & Comment(s):

Question (s): A representative from a COMCEC member country has asked that all these regulations are conservative and may cause the economies to grow slower. Will they serve for their purpose?

Answer: Mr. SALTOĞLU explained that what is important is to minimize the growth volatility in the OIC member states. Financial regulations and particularly the financial stability efforts are to decrease financial uncertainty and increase confidence. So they will serve for the purpose in the medium and long run.

Question (s): Another finance representative from a COMCEC member states has asked that all these regulations are developed after the recent financial crisis. How can we be sure that the next crisis will have the same symptoms and cause of the previous one?

Answer: Mr. SALTOĞLU stressed that even though the future crisis will be different still new regulations give enough flexibility for countries to take actions before it gets too late. He argued that financial stability and macro prudential regulations can be applied differently for each country. He stated that financial stability issues can be developed and applied differently for each country.

3.2. Supervisory Mechanisms in the OIC Member Countries: Challenges, Obstacles and Recommendations

Initially, Mr. SALTOĞLU has given a general overview of the OIC banking system as a whole. The banking analysis of OIC countries have been made on various criterions. First, the relative weight of banking sector versus non-banking financial sector was discussed. Majority of OIC member states had a banking sector dominating the non-banking sector. This type of dominance was much higher than that of EU and US banking system. This indicates that a strong bank supervision is a must for the OIC member states. Since the rapid credit growth is considered to be a systemic risk factor supervisory authorities should pay attention to this statistics. Mr. SALTOĞLU mentioned that this requires strong bank supervision is a must for the OIC member states. Then, he has presented the total domestic credit provided by OIC member countries in the banking system. The average debt/asset ratio is way below 100% which is clearly below the European banking. However, the domestic credit growth provided by the financial sector in the OIC member states shows a significant increase in most member states. Since the rapid credit growth is considered to be a systemic risk factor supervisory authorities should pay attention to this statistics. Mr. SALTOĞLU discussed why banking supervision and regulation is a must for economies to have a sustainable growth. He also discussed the brief causes of the recent credit crisis hit the US economy. He claimed that, banking supervision needs to minimize the moral hazard problems and increase the transparency in the banking sector. After this brief theoretical background, Mr. SALTOĞLU has begun to describe the recent global changes and the trends in the banking regulation after BASEL III. Mr. SALTOĞLU presented a concrete outline and a summary of future banking reforms for the OIC member banks. He has summarized the future changes in the new banking regulation with the following headlines

Expected changes in major:

1. **General Observations on the selected OIC member state**

- Credit growth is generally very strong in the OIC Member states
- Credit risk is the major financial risk in banking
- Backward looking credit risk measures (NPL, RWA) may understate the actual risks (forward looking measures should be used)
- Capital level in banking on average is sufficient (mainly tier 1)
- Banking sector in general have ample liquidity.
- The size of "Off balance" assets is relatively small
- Interest rate incomes are the main source of banking profits in the selected OIC member states.
- ROE's (at least up to year 2014) were better than EU and US banking

On the basis of these general observations it is found that credit risk management should be the ultimate target for the supervisors in the OIC member states. Not only the relative importance of loans portfolio is large, but also the credit growth in the OIC member states is high. As the credit risk is also related to the rate of growth of the economy, credit risk becomes the main tool to minimize systemic risk in the OIC member states. One of the most important aspects of the credit risk is the healthy credit risk measurement. For this purpose better and forward looking credit risk measures are necessary to be used in the OIC members states.

Mr. SALTOĞLU also mentioned that, capital structures in the OIC member states, in general are not weak compared to the pre-crisis levels of US and EU banking. Particularly, the composition and the quality of bank capital in the OIC member countries is relatively satisfactory. He concludes that OIC member states in general will have a relatively less problem to cope up with the future banking regulatory requirements. One other positive aspect of the OIC member states discussed in the presentation was the relatively small size of the derivative products and off-balance sheet assets in the banking sector. As the recent financial crises have revealed the fact that heavy use of derivative products under poor supervision can cause banking collapses. The current state of the OIC banking sector is positive in this context. A final point made by Mr. SALTOĞLU was the profitability of the banking sector in the OIC member states. Even though some of the countries might have some problems in the profitability aspect of banking many other countries have Return on Equity (ROE) higher than EU banks. This is positive but having a sustainable profitability in banking very much depends on strong banking supervision.

He concludes that OIC member states in general will have relatively less problems to cope up with the future banking regulatory requirements. As a next topic Mr. SALTOĞLU discussed the supervision in the OIC member states.

2. Supervisory Practice in the OIC Member states

The second part of the talk relied on the banking supervision in the OIC member states. In this part, Mr. SALTOĞLU relied on a study made by the World Bank. World Bank have been conducting a regular survey on Regulation and Supervision covering 180 countries. Mr. SALTOĞLU has used an index developed by Barth, Caprio, Levine (2013) to compare the state of supervision in the OIC member states. This comparison is made on 6 basic categories:

2.1 Supervision Categories:

- Scope of Bank Activities and Financial Conglomerates
- Capital Regulations
- Official Supervisory Power
- Private Monitoring and External Governance
- Deposit Insurance Schemes
- Restrictions on Entry into Banking Sector

2.2 Summary of the Supervisory mechanisms in the OIC member states

Scope of Bank Activity Regulations

Overall, OIC countries impose stringent regulations on banking activities as restrictive as EU-27 and US

Official Supervisory Power

Overall, supervisory power in OIC countries is equal to the average of EU-27 and slightly lower than US.

Capital Regulations

Overall, capital regulations in OIC countries are stricter

Independence of Supervisory Authority

Overall, OIC countries achieve supervisory independence in line with EU-27 and US than EU-27 and as strict as in US

Private Monitoring

- *Overall, OIC countries rely on private monitoring in an equivalent scale to EU-27 and slightly below US.*

2.3 Policy Recommendations

After presenting the general picture on the OIC member states Mr. SALTOĞLU has mentioned some items on policy recommendations.

- OIC countries possess supervisory schemes for the banking sector in line with the international standards
- OIC may improve their tools on measuring Credit Risk.
- A better data collection methodology can be improved in OIC member states for an internal rating.
- Developing an Effective Deposit Insurance Scheme for the Banking Sector is a must for the OIC member states.
- For following the global banking regulation OIC member states may take a more proactive action.

Question(s) & Comment(s):

Question (s): A finance representative from a COMCEC member country has asked what type of deposit insurance mechanism should be used.

Answer: Mr. SALTOĞLU explained that a risk based deposit insurance mechanism can be more beneficial for the OIC member states. In this way moral hazard issue in the banking sector can be better handled.

4. Policy Discussion Session

The session was moderated by Mr. Wasim ABDULWAHAB, Senior Islamic Services Specialist, Islamic Development Bank Group. At the outset, Mr. Okan POLAT, Expert at the COMCEC Coordination Office (CCO) made a brief presentation on the policy issues highlighted in the room document which was prepared in line with the answers of the member countries to the policy questions, and to the inventory study sent to the Working Group focal points by the CCO as well as the main policy recommendations of the analytical study prepared specifically for the 4th Meeting of the Financial Cooperation Working Group.

At the outset, Mr. POLAT underlined that the COMCEC Strategy has become operational in 2013. One of the mission of the COMCEC defined by the COMCEC Strategy is approximating policies among the Member Countries. Therefore, before the last working group meeting, which was held in October, some policy questions were sent to the registered member countries to the Financial Cooperation WG in order to enrich discussions during the meeting and add policy dimension in the discussions. Mr. POLAT informed that participants that they received responses from 14 countries out of 30 countries registered to the FCWG. He said that 6 specific questions were prepared by CCO related to the policies of member countries for improving banking supervisory mechanisms in the OIC member countries.

Questions contained in the questionnaire were as follows:

1. Does your country have a particular law, regulation and directive on supervisory mechanism in the banking sector?
2. Does your country have a special institution to supervise the banking system and what are the main roles of supervisory institutions to strengthen the structure of banks in order to avoid systemic risks in the banking sector?
3. Does your country have single or multiple supervisory authority?
4. What are the main challenges and obstacles faced in your country in the banking supervision?
5. What are the common characteristics of the banking supervision in your country in terms of conventional and Islamic banking?
6. Does your country have collaboration with other regional organizations and international institutions offering supervision services for banking?

Afterwards, he briefly informed the participants about the answers of the Member countries to these questions and expressed that in the findings of the analytic study and the responses to the questionnaire, the following issues were highlighted:

Policy Advice 1: Sound Credit Rating Methodology specifically designed for the OIC Member Countries need to be developed for reducing risks during episodes of economic turbulence.

Policy Advice 2: An Effective Deposit Insurance Scheme for the Banking Sector needs to be developed for achieving a higher degree of financial stability and financial inclusion.

Policy Advice 3: A Supervisory Framework needs to be developed specifically for Islamic Banking in order to benefit from the significant growth potential of Islamic Banking System.

Based on the outcomes of the deliberations, CCO drafted attached document[2], which includes the following policy options, reflecting the main points of agreement by the delegations. It was

2 The policy recommendations document is attached as Annex 3.

expressed that CCO will circulate this draft document to all members of Financial Cooperation Working Group for their views and comments to be conveyed to the CCO by April 30th, 2015 at the latest. After incorporating the Member States' contributions, CCO will submit it to 31th Session of the COMCEC to be held on 23-26th November, 2015 as an outcome of the 4th FCWG Meeting for further action.

Policy Advice 1. A unified credit risk data collection strategy for the OIC Member Countries needs to be developed for reducing risks during episodes of economic turbulence and risk assessment capacity of the OIC Member Countries as well as OIC Member Countries should be developed in line with the international best practices.

Policy Advice 2. An Effective Deposit Insurance Scheme for the Banking Sector needs to be developed for achieving a higher degree of financial stability and financial inclusion.

Policy Advice 3. A Regulatory and supervisory Framework needs to be developed specifically for Islamic Banking in order to benefit from the significant growth potential of Islamic Banking System.

5. Member State Presentations

5.1. Gambia

Mr. ESSA A.K DRAMMEH, Director in the Financial Supervision Department Central Bank of the Gambia, made a presentation on Bank Regulation and Supervision in The Gambia. At the outset, he informed the participants about some developments in the Gambian Economy. He mentioned that, the latest estimates from the Gambia Bureau of Statistics (GBoS) indicate that real GDP contracted by 1.4 percent in 2014, compared to the growth of 4.6 percent and 5.9 percent in 2013 and 2012 respectively. The deceleration in economic activity in 2014 was primarily due to lower agricultural production which declined by 22.0 percent due to late and insufficient rains and the negative impact of the Ebola epidemic on the tourism sector.

Regarding the Banking sector, Mr. DRAMMEH informed the participant that the banking industry consists of twelve banks, eleven of which are conventional banks and one Islamic bank. The banking sector accounts for about 90% of the Gambian financial system. He mentioned that the Central Bank of Gambia is the sole Regulator and Supervisor of the Gambian Financial System. He also expressed the legal framework for Banking regulation and supervision. He argued that, there is a huge potential for Islamic finance in The Gambia, however due to lack of awareness and capacity constraints, there is lot of room for improvement to exploit the sector to its maximum potential.

He mentioned that, Banks are supervised by using the following approaches: Off-site monitoring, On-site Examination, Collaboration with External Auditors, Annual Prompt Corrective Action (PCA) assessment and Issue of Directives, some of which include: Minimum Capital Requirement, Management and Technical Services Agreements (Guideline 9), Guideline 1 (Revised 2007) on Submission of Regulatory Returns, Guideline 3 (Revised) on Statutory Reserves and Guideline 6 (Required Reserves).

At the final part of his presentation, he argued the main strengths and weaknesses in supervision of banks and main challenges and obstacles in banking supervision in The Gambia. He concluded his presentation by expressing some recommendations to improve banking supervisory mechanisms.

5.2. Mozambique

Mr. UMAIA MAHOMED Director at Banco de Moçambique and Mr. AGNÉLIO PITA, Research and Regulation Officer at Banco de Moçambique, made a presentation on Bank Regulation and Supervision in Mozambique. They presentation covered the Country Background; Magnitude of the Banking Sector; Supervisory Framework in Place; The Main Strengths and Weaknesses of the Supervisory Mechanism in the Banking Sector; The Common Challenges and Obstacles Faced in the Banking Supervision as well as The Mechanism to Supervise Islamic Banking. First of all, they introduced summary status of the country such as the currency, population and income level, general economic data such real GDP growth, inflation and balance of payment, emphasizing that the real GDP growth has been more than 7% along more than 5 years.

Regarding the magnitude of the banking sector in Mozambique they highlighted that the financial intermediation in Mozambique is dominated by the banking sector, where there are 18 banks and 10 micro banks operating in the system, mostly dominated by foreign capital. The Mozambican banking sector is highly concentrated. The biggest assets, credit and liabilities components, measured by market shares, are owned by four big banks, with more than 80%. They also highlighted some figures as at the end of 2014.

They informed the participants regarding legal supervisory framework and underlined that the main banking system laws are the Central Bank Law (Law Nr. 1/92, of 3rd of January) that gives regulatory and supervisory powers to the Central Bank regarding the financial institutions in Mozambique. They reminded that there are also a set of Notices and Circulars covering all areas of supervision, including Basel II framework.

MOHAMED and PITA mentioned that the Central Bank is the supervisory authority responsible for the regulation and supervision of the banking system, according to the Banking Law and also is responsible for the regulation and supervision of non-bank financial institutions, as well as capital market. The Insurance Supervisory Authority (Insurance Supervisory Institute) is responsible for the regulation and supervision of insurance companies and pension funds. This authority is under the umbrella of the Ministry of Economy and Finance.

They informed the participants that the main strengths are the Basel II framework in place; onsite and offsite supervision; and financial stability framework. The main weakness is related to human resources, namely not adequate staffing in terms of numbers as well as qualified Supervisors/ Bank Examiners – lack of appropriate training and academic qualification, as a result of banking supervision not been lectured at universities. The main challenges of the banking supervision are full compliance with BCP's; Implementation of Basel II framework; Cross border supervision; and Rapid economic growth of the economy that attracts a lot of foreign investment that requires from the Central Bank to constantly train its staff in charge of regulation and supervision to be able to better assess the risks of new services and products that emerge in the financial system. The main obstacle is the shortage of skilled human resources, in quality and in quantity.

They concluded the presentation saying that currently there is no specific regulatory framework for Islamic banks in Mozambique, therefore there are no Islamic banks as such. The banking system is dominated by conventional banks. The regulatory framework is much in line with Basel Committee for Banking Supervision principles.

5.3. Pakistan

Mr. Muhammad SALEEM, Additional Director at State Bank of Pakistan, made a presentation on Banking Supervisory Mechanism in Pakistan. At the outset, Mr. SALEEM demonstrated some figures on overall financial Sector in Pakistan. He informed the participants that there are 333 financial ınstitutions in Pakistan (37 Banking System and 296 nonbank financial ınst.) He also shared some statistic regarding Pakistan's Banking sector.

Mr. SALEEM also shared some financial soundness indicators, namely capital adequacy, asset quality, earnings and liquidity. He mentioned that the capital adequacy ratio of Banks in Pakistan is more than the requirements of Basel. Risk weighted CAR is %1711 and Tier 1 Capital to RWA is %14.3 as of December 2014. He stated that banks is Pakistan have sufficient liquidity.

He informed the participants that 6 Pakistani Banks[3] have investments in the OIC Member Countries, and 7 Banks of OIC Member Countries[4] have investments in Pakistan. HE also demonstrated some information on Islamic Banking in Pakistan. He mentio

[3] Habib Bank Ltd, United Bank Ltd, National Bank of Pakistan, Bank Alfalah Limited, MBC Bank Ltd and Bank Al-Habib.

Islamic Banking Penetration	Number of Banks	Number of Branches/IBWs
Full-Fledged Islamic Banks	5	1,027
Conventional Banks offering Islamic Banking Services	17	555
Banks having IBWs in Conventional Branches	8	929
Total		**2,511**

Islamic Banking Market Share	*Share in Industry*
Total Assets	9.9%
Deposits	10.7%
Net Financing & Investments	7.8%

Mr. SALEEM briefed the participants on a Special Initiative: Branchless Banking. He mentioned that this initiative is targeting the unbanked and low income masses. State Bank of Pakistan SBP introduced BB Regulations initially in March 2008. He continued his presentation by informing participants regarding legal framework, regulatory and supervisory framework. He concluded his presentation by demonstrating the expectations for future of banking sector in Pakistan.

5.4. Palestine

Mr. MUSTAFA ABUSALAH, Division Chief in Palestine Monetary Authority (PMA), made a presentation on Palestinian Banking Sector. At the beginning of his presentation, he informed the participants on Palestinian banking system structure. He mentioned that there are 7 local banks, 9 foreign banks, 300 money changers and 12 specialized lending institutions on micro finance. Mr. ABUSALAH shared main indicators on banking sector and capital structure ratios. He mentioned that the net asset in banking sector is USD 11.54 billion. Minimum capital requirement in Palestine is USD 50 million and it will be raised to USD75million. Minimum CAR is 12%.

Mr. ABUSALAH informed the participant regarding regulatory framework on banking sector in Palestine and briefed the participant how PMA strengthen banking sector. He mentioned that there are two supervisory authorities in Palestine. PMA supervises money changers, banking sector and microfinance institutions. Palestine Capital Market Authority (PCMA) supervises capital market, mortgage sector, insurance sector and leasing finance. He expressed that the coordination between PMA and PCMA ensure by singing MoU. He also underlined that a committee meets regularly to provide sound coordination.

He expressed the main challenges in Palestine under 5 title:

1. Israeli Occupation,
2. High political risk environment with regional and local instability,
3. No domestic currency and Inefficiencies in the use of three currencies: NIS, JD and USD (Imported inflation),
4. Unstable government revenues,
5. Regional instability.

[4] Bank Islami Pakistan Limited, Burj Bank Limited, Dubai Islamic Bank Pakistan LTD, Meezan Bank Limited, Bank Alfalah Ltd, AlBaraka Bank, Samba Bank

He informed the participants that there are 14 Conventional Banks (90% of banking assets) and 2 Islamic Banks (10% of banking assets). He also informed that a new Islamic bank is under the process of establishment. He concluded his presentation by giving information on cross-border cooperation. He stated that there is a MoU with Central Bank of Jordan and Central Bank of Egypt. He expressed that there are cooperation agreements and exchange experience between other Arabian countries. He concluded his presentation by sharing some financial soundness indicators.

5.5. Sudan

Ms. FAIZA AWAD, the General Director of Macroeconomic Policy Department –Ministry Of Finance made a presentation on the supervisory framework for the banking sector in Sudan. She expressed that in Sudan there are three regulatory bodies: one of them is The Bank of Sudan which established in 1959. Its role have been developing gradually to strengthening the banks performance, maintaining confidence in the banking system, maintaining the stability of the banking sector and reinforcing the role of the banking sector in achieving the economic stability.

She also mentioned that the Sudanese financial system is dominated mainly by banking sector which constitute more than 90 % of the financial system. She also shared some statistic about the financial system.

Ms. Faiza informed the participants regarding legal and regulatory framework. Ms. Faiza explained that the Bank of Sudan runs its supervisory role through on-site and offsite supervision, beside shari’ah governance through the Higher Shari’ah Board. She underlined that to have more effective banking supervision there is high co- ordination between the on-site and off-site supervision.

She also mentioned the main Measures that implemented for effective supervision and highlighted the main challenged that faced the system in Sudan.

She highlighted some financial indictor for Sudanese system such as capital adequacy & NPLs Ratio & deposit to GDP ratio & finance to GDP ratio as well as the share of each mode of finance from total finance & the share of finance for different economic sectors .

She concluded her presentation by explaining the central bank of Sudan Strategy to strengthen Banking Supervision which depends on the following:

1. Enhancing the disclosure and transparency
2. Complete the implementation of core principles for effective banking supervision.
3. Building up capacities and skills in banking supervision and commercial banks as well.
4. Upgrading and strengthening the supervisory techniques (stress testing).
5. Implementing financial stability framework adopted by COMESA countries.

She recommend strongly the establishment of supervisory college to exchange experiences in different issues between related supervisory authorities on a more regular bases, consistence with Basel core principles for effective banking supervision regarding Host/home supervision.

5.6. Uganda

Ms. SOPHIA KIRONDE IWUMBWE, Senior Principal Banking Officer in Bank of Uganda made a presentation on Banking Sector in Uganda. In advance, she informed the participant on the overview of the financial sector in Uganda. She mentioned that Uganda's financial system is composed of formal, semiformal and informal institutions. The formal institutions mainly cover banks, microfinance deposit-taking institutions, credit institutions, insurance companies, development banks, pension funds and capital markets. The semi-formal institutions include Savings and Credit Cooperative Associations (SACCO) and other Microfinance institutions, whereas the informal ones are mostly village savings and loans associations.

Ms. IWUMBWE informed the participants that banking sector includes Commercial Banks (25- Total Assets: USD 6,7 billion), Credit Institutions (3- Total Assets: USD 105 million), Microfinance Deposit-taking Institutions (3- Total Assets: USD 109.5 million), Forex Bureau (203) and Money Remitters (58). She mentioned that the Bank of Uganda (BOU) is the responsible authority of supervision and regulation of the banking activity. She underlined that BOU conducts on-site examination of all commercial banks using a risk-based supervision methodology and offsite surveillance of these institutions. In her presentation, she also shared some information regarding securities sector and insurance sector. Regarding the regulatory framework, Ms. IWUMBWE highlighted that there are various legislations governing the regulation of the financial sector.

She demonstrated following as the strengths of the sector:

- Presence of enabling legal framework which gives the regulatory bodies autonomy in the execution of their mandate and contribute to safe and sound sectors.
- Risk Based Supervision Methodology, which enables efficient allocation of supervisory resources.
- The EAC embraced consolidated Supervision and instituted measures to facilitate exchange of information (MOUs, Supervisory Colleges).

She underlined the lack of adaptation of the regulators to the dynamism of the banking sector as the key weakness. She expressed that lack of financial inclusion and slow speed of enactment of legislations as the challenges.

At the last part of her presentation, Ms. IWUMBWE stated that Uganda is in the process of introducing Islamic Banking. She thanked to IDB for Technical Assistance to develop a Supervisory and Regulatory framework for Islamic Banking.

5.7. 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 banking supervision in Turkey.

At the first part of his presentation, Mr. BATUR summarized financial system in Turkey. He stated that banking sector dominates Turkish financial system. According to different definitions, banking sector represents about 61 to 85 percent of the total financial sector assets in Turkey. He also gave detailed information on financial sector assets and he stated that banking sector reached to 2 trillion Turkish Liras in asset size by the end of 2014. Furthermore, he summarized the banking sector indicators, including capital adequacy ratio, non-performing loan ratio and return on equity.

At the second part of the presentation, Mr. BATUR introduced the regulatory and supervisory framework of the whole financial system in Turkey. He stated that regulatory and supervisory framework in the financial system was a bit fragmented and there were four main public institutions regarding their own jurisdictions, namely Undersecretariat of Treasury, Central Bank, Capital Market Board and Banking Regulation and Supervision Agency. Among these institutions, Banking Regulation and Supervision Agency is responsible for both regulating and supervising the banking sector in Turkey. Mr. BATUR also gave some information on how cooperation and coordination are ensured among these institutions. He stated that for ensuring coordination and cooperation, Financial Stability Committee was established in 2011. He emphasized that Committee is a high level coordination body which is chaired by the Deputy Prime Minister. The members of the Committee are the heads of Treasury, Central Bank, Banking Regulation and Supervision Agency, Capital Markets Board and Saving Deposit Insurance Fund. The aim of the Committee is to identify and mitigate emerging systemic risk, to coordinate policy actions, and to better integrate micro- and macro-prudential perspectives among institutions.

In his presentation, Mr. BATUR focused on banking supervision in Turkey. He stated that Banking Regulation and Supervision Agency was established in August 2000, having the status of a public legal entity with autonomy. He stressed that Banking Regulation and Supervision Agency is the sole authority to carry out the supervision of banking sector including participation (Islamic) banks in Turkey. The independence of the Agency gives autonomy in regulation and supervision, agency administration and using financial resources. He also gave brief information on organizational structure and Banking Regulation and Supervision Board that is the decision-making body of the Agency.

Moreover, Mr. BATUR introduced the audit activities of the Agency. He expressed that Agency conducts audits;

- to ensure the provisions of the Banking Law and other laws are properly adopted by supervised institutions,
- to assess the financial soundness of these institutions,
- to evaluate the effectiveness and sufficiency of the structures developed to monitor and manage risks that may arise from usage of IT systems in banking activities.

Mr. BATUR stated that the audit activities include two integrated processes: On-site Examination that is the supervision of the financial tables and records according to accounting principles and auditing standards and Off-site Examination which consists of stress testing and scenario analysis. He also showed audit cycle in banking supervision that contains nine steps:

- Composition of audit groups and identification of banks to be audited
- Identification of risk areas
- Preparation of audit plan
- Specific reports
- Rating process
- Internal capital adequacy assessment process
- Review and evaluation process
- Conclusion meetings
- Panel process

He also expressed that risk focused supervision approach is also adopted in banking supervision in Turkey.

At the last part of his presentation, Mr. BATUR elaborated on Banking System Restructuring Program that started to be implemented in 2001. He expressed that the main objective of the program was to eliminate distortions in the financial sector and to adopt regulations to promote an efficient, globally competitive and sound banking sector. The program consists of restructuring the state banks, strengthening the private banks, exit and resolution of insolvent banks and improving the regulatory and supervisory framework in the banking system.

6. Experiences of International Institutions

6.1. Regulatory and Supervisory Challenges of Islamic Banking after Basel III

Miss. Canan ÖZKAN, who is working as a Financial Sector Specialist at the World Bank Global Islamic Finance Development Center (İstanbul), made a presentation on the Regulatory and Supervisory Challenges of Islamic Banking in a Post-Basel III environment.

At the beginning of her presentation, Miss Ozkan, briefly informed the participants about World Bank Global Islamic Finance Development Center (İstanbul). Her presentation provided background on the new Basel III rules but the main focus of her presentation was the implications of Basel III on Islamic banking. She has mentioned that since the banks in GCC countries are already well-capitalized, the increased capital requirements and the change in the scope of capital will not create a challenge for them. She took the attention of the audience to the recent perpetual sukuk issuances of banks as Tier-1 capital. She told that Abu Dhabi Islamic Bank, Dubai Islamic Bank, Al Hilal Bank has already made perpetual Sukuk Issuances.

In her presentation, she mentioned that the biggest challenge of Basel III for Islamic banks lies in the compliance with liquidity requirements. Finding HQLAs will be the biggest challenge for Islamic banks due to insufficient secondary Islamic financial markets. She argued that the discretionary role of supervisory authorities will be playing an important role in the implementation of Basel III rules, especially in the determination of run-off rates. She also argued that Basel III compliance will create challenges and opportunities as well as operational risks for Islamic banks as her key message. She has summarized the challenges and opportunities as follows:

- Impact of run-off rate for PSIA on liquidity requirement.
- Incentive to develop HQLAs to overcome liquidity issues.
- Impose of a discipline on utilization and maintenance of capital. (Capital optimization through the review of their internal processes and through the optimal capital structure)
- A potential slow-down in growth of the sector because of increased capital, liquidity and leverage requirements.
- The importance of discretionary role of national regulators in the implementation of Basel III rules, that recognizes industry limitations.
- An incentive to develop sharia-compliant insurance schemes, (that lowers run-off rates and deems deposits as stable) on a takaful basis.
- Operational burden brought by Basel III compliance, reporting and monitoring.
- Increased need for state-of-the art risk systems, quantitative analysis, IT systems, and internal control systems and reliable credit rating systems

Question (s) & Comment(s):

Question: Mr. Chairman agreed the statement that Basel III creates challenges for Islamic banks but these challenges can turn into opportunities if managed well. The Pakistani representative asked about stress testing procedures for Islamic banks.

Answer: It has been stated by IDB delegate that IMF, WB and IDB has been working on FSAP for Islamic banks and it will be disseminated once it has been finished.

6.2. Technical Assistance for the Development of Supervisory Mechanisms in the Member Countries

A presentation on Technical Assistance for the Development of Supervisory Mechanisms in the Member Countries" was given by Mr. Wasim Ahmed ABDULWAHAB from the Islamic Financial Services Department of the Islamic Development Bank (IDB).

At the outset, Mr. ABDULWAHAB informed the participants about establishment of Islamic Financial Services Department and its vision, mission and strategy. He shared some development on global Islamic Finance Industry. He underlined that The Islamic finance ecosystems across OIC countries and countries with significant Muslim populations are significantly underdeveloped, with only 12 countries having developed systems. Only 28 countries have some of Islamic finance regulations, with only 4 having comprehensive regulations.

He argued that, for a sound and resilient Islamic Financial Services Industry, legal framework, and regulatory framework, supervisory framework, ınstitutional framework, sharia framework are the basic building blocks for Enabling Environment for Islamic finance. At the final part of his presentation, Mr. ABDULWAHAB informed the participants on the Technical Support Program to create the enabling environment for Islamic financial sector.

7. The Way Forward: Utilizing the COMCEC Project Cycle Management (PCM)

The last presentation was made by Mr. Eren SÜMER, Expert at COMCEC Coordination Office (CCO) on the Project Cycle Management (PCM) mechanism introduced by the COMCEC Strategy. Mr. SÜMER started his presentation with elaborating on what PCM is and where it stands in the COMCEC Strategy in order to open a good ground for participants to have a better understanding regarding the project funding process of the COMCEC.

After demonstrating the audience the basic logical framework and the cycle to be followed during the PCM process, Mr. SÜMER highlighted the procedures and financial framework of the COMCEC PCM in general. Regarding the submission of the projects, Mr. SÜMER informed the participants that only member countries registered to the Working Groups and OIC Institutions can submit the projects to the CCO.

He continued his presentation by giving some detailed information on the project selection criteria. He mentioned that all project proposals must have direct compliance with the principles of the COMCEC Strategy which are enhancing mobility, strengthening solidarity and improving governance. A project will be eligible for funding if it meets the strategic objectives of the Strategy, focuses on its output areas and pursues multilateral cooperation among the OIC Member Countries. Furthermore, he emphasized that the CCO designated sectorial themes in 2014 project call in accordance with Working Group's agenda. He underlined that the projects focusing only the themes stated in the Program Implementation Guideline will be supported by the CCO. He also mentioned that the nature of the projects would be soft nature related to technical cooperation and capacity building.

With regards to the eligible activities under the technical cooperation and capacity building projects, Mr. SÜMER enumerated possible activities as follows;

- Preparation of research and analytical studies, strategies, guides, road maps on the relevant field of the COMCEC Strategy
- Study visits
- Trainings programs
- Exchange of experts
- Needs Assessments and Impact Analysis
- Visibility/Publicity/Promotional Activities (Press release, web page, introductory meeting etc.)
- Conferences
- Workshops

After underlining the possible activities, three key actors and their responsibilities during the whole process under the PCM were identified; Project Owner (Project Submission and Implementation); the CCO (Program Management) and the Intermediary Bank (Development Bank of Turkey) (Project Monitoring and Financing). Moreover, the roles of these key actors throughout the project application, implementation and financing process were explained.

Mr. SÜMER informed the participants that the Bank would be mainly responsible for financial and technical monitoring of the projects while the CCO would oversee the overall implementation of the PCM. In the presentation, reporting procedures of the project activities were also provided.

With respect to the financial framework, Mr. SÜMER emphasized that the funds are grant in nature and would be provided by the COMCEC Coordination Office for the 2013-2015 period.

From the illustration of the indicative grant limits and co-finance rates for the COMCEC projects, it was seen that member countries could submit a project with a budget up to USD 250.000 with the condition that they would cover at least %10 of the total budget (cash or in kind). For the OIC Institutions, this amount would be USD 100.000 and at least %25 should be covered by the project owner.

Mr. SÜMER touched upon also the recent developments in terms of improving PCM mechanism. He noted the developments as follows;

- The independent appraisal of project proposals,
- Revised durations for project submission periods,
- Upper limit for Project Coordinator's and Project Expert's fees,
- New Criteria: Sectorial themes of Working Group Meetings

Then, he listed the sectorial themes in the Financial Cooperation area as follows by emphasizing that the project idea must be relevant to at least one of these sectorial themes;

- Improving the business environment
- Increasing the financial stability of the member states
- Enhancing Financial Literacy
- Risk Management in Islamic Financial Instruments
- Financial Regulation to Mitigate Systemic Risk
- Improving Regulatory framework in the Banking sector
- Developing institutional capacity of supervising authorities
- Establishing and Developing Payment Systems

Lastly, Mr. SÜMER reminded the participants about the timeline of second call for project proposals underlining that the call for project proposals has already been made at the beginning of the September, 2014 and the final list was declared in February 12th, 2015. At the end, Mr. SÜMER kindly invited all esteemed members to submit project proposals for the third call in September, 2015.

8. Closing Remarks

The Meeting ended with closing remarks of Mr. Shaukat ZAMAN, the Director at State Bank of Pakistan (SBP) and Chairman of the Meeting and Mr. M. Metin EKER, Director General of the COMCEC Coordination Office.

In his remarks, Mr. ZAMAN thanked the COMCEC Coordination Office for giving him the opportunity to chair this important meeting. He stated that all deliberations and discussions would strengthen the financial cooperation specifically banking supervision among the Member Countries and COMCEC Working Group mechanism exactly gives great opportunity to member countries through sharing experience and practices of their respective countries.

Mr. M. Metin EKER also thanked all the participants for their efforts for approximating policies among our member countries and invaluable contributions during this session. Underlining that the views, comments and multi-dimensional perspectives of member countries on the analytical study prepared specifically for this meeting would feed our future endeavors, Mr. EKER stated that as a newly initiated session, policy discussions made during the Moderation Session was very fruitful for all participants and the outcomes of this session specifically policy advices would be presented to the upcoming annual COMCEC Session. Furthermore, Mr. EKER also stressed the importance of PCM mechanism and invited the Member Countries as well as the relevant OIC Institutions to submit their projects.

Mr. EKER also informed the participants that the next (5th) Meeting of the Financial Cooperation Working Group will be held on October 15th, 2015 in Ankara with the theme of “Retail Payment System in the OIC Member Countries”.

ANNEXES

Annex 1: Agenda of the Meeting

DRAFT AGENDA

4th MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP

(March 19th, 2015, Ankara)

"Improving Banking Supervisory Mechanisms in the OIC Member Countries"

Opening Remarks

1. Financial Outlook of the OIC Member Countries
2. Supervisory Framework of the Banking Sector in the OIC Member Countries
3. Discussion on the Policy Options to Improve Supervisory Mechanism in the Banking Sector of the OIC Member Countries
4. Member Country Presentations
5. The Experience of International Institutions
6. Utilizing the COMCEC Project Funding

Closing Remarks

Annex 2: Programme of the Meeting

DRAFT PROGRAMME

4th MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP

(March 19th, 2015, Ankara)

"Improving Banking Supervisory Mechanisms in the OIC Member Countries"

08.30-09.00 **Registration**

09.00-09.15 **Opening Remarks**

09.15- 09.45 **Financial Outlook of the OIC Member Countries**

Presentation: *Mr. Utku ŞEN*
Expert
COMCEC Coordination Office

Views and Comments

09.45-10.45 **Recent Developments in the Banking Sector**

Presentation: *Prof. Dr. Burak SALTOĞLU*
Boğazici University

Question(s) for Discussion:

- *What is the main role of supervisory mechanisms to strengthen the resilience of the banking system?*
- *How does your country perceive the recent trends in global banking supervision?*

10.45-11.00 Coffee Break

11.00-12.00 **Supervisory Mechanisms in the OIC Member Countries: Challenges, Obstacles and Recommendations**

Presentation: *Prof. Dr. Burak SALTOĞLU*
Boğazici University

Question(s) for Discussion:

- *What is the magnitude of the banking sector in the Member States' financial system?*
- *What are the main strengths and weaknesses of the supervisory mechanism in the banking sector in the Member States?*

12.00-14.00 **Lunch**

14.00-15.45 **Discussion on the Policy Options for Improving Banking Supervisory Mechanisms in the OIC Member Countries**

There will be a moderation session under this agenda item. The participants are expected to deliberate on the policy advices for Banking Supervisory Mechanisms in the OIC Member Countries. In light of the findings of the research report prepared for this Working Group Meeting and the answers of the Member Countries to the policy questions which have already been sent by the CCO, the Working Group may come up with concrete policy advices for the policy approximation among the Member Countries in this field.

Question(s) for Discussion:

- *How can supervisory capacity of the banking sector in the Member Countries be enhanced?*
- *What are the cooperation opportunities to improve supervisory mechanisms in the Member States?*

15.45-16.00 Coffee Break

16.00-17.00 **Member Country Presentations**

- Discussion

17.00- 17.45 **The Experience of International Institutions**

Presentation: "Regulatory and Supervisory Challenges of Islamic Banking after Basel III"
Ms. Canan ÖZKAN
Financial Sector Specialist,
World Bank Global Islamic Finance Development Center

Presentation: "Technical Assistance for the Development of Supervisory Mechanisms in the Member Countries"
Mr. Wasim Ahmed ABDULWAHAB
Senior Specialist
Islamic Development Bank Group

Question(s) for Discussion:

- *What are the crucial roles of international organizations and institutions for the effective supervisory mechanism in the Member States?*
- *Does Islamic Banking System in your Country ready for Basel III?*

17.45-18.05 **Utilizing the COMCEC Project Funding**

Presentation: *Mr. Eren SÜMER*
Expert
COMCEC Coordination Office

Views and Comments

18.05-18.15 **Closing Remarks**

Annex 3: Policy Recommendations of the 4th COMCEC Financial Cooperation Working Group Meeting

The COMCEC Financial Cooperation Working Group (FCWG) successfully held its 4th Meeting on March 19th, 2015 in Ankara / Turkey with the theme of "Improving Banking Supervisory Mechanisms in 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.

The Member States of the FCWG are kindly invited to convey their views and observations on this document to the COMCEC Coordination Office by April 30th, 2015. Any comments received after this date will not be able to be incorporated into the Document. After incorporating the Member Countries' contributions, this document will be submitted to the 31th Session of the COMCEC to be held on 23-26th November, 2015 as an outcome of the 4th FCWG Meeting for further action.

Policy Advice 1. A credit risk data collection strategy for the OIC Member Countries needs to be developed for reducing risks during episodes of economic turbulence and risk assessment capacity of the OIC Member Countries as well as OIC Member Countries should be developed in line with the international best practices.

Rationale:

For most OIC member states, credit risk appears to be the most important risk factor for the banking sector. Even though OIC member states reserved a significant amount of capital buffer against potential credit risk, they generally use standard risk weights which might understate the actual credit risks during episodes of economic turbulence. There is a need to develop a systematic credit rating methodology specifically designed for OIC Member Countries, since credit rating methodologies developed and implemented in Europe and in the US may not be well-suited given the peculiar aspects of the OIC economies.

Therefore, to achieve a unified credit rating methodology, a unified credit risk data collection strategy needs to be developed among OIC member states. Both consumer and commercial credit risk data (both good and bad customer data) can be collected with a unified data collection framework. Thus, regulators make sure that rating companies use original and genuine data. Furthermore, Member Countries and especially OIC Institutions need to improve their risk assessment capacity in line with the international best practices

Policy Advice 2. An Effective Deposit Insurance Scheme for the Banking Sector needs to be developed for achieving a higher degree of financial stability and financial inclusion.

Rationale:

The recent crises in US and EU banking sectors have shown the importance of an effective deposit insurance scheme and paved the way for radical changes in deposit insurance practices. Deposit insurance is critical to ensure depositors' confidence and enhance depositor base, which is a necessary step to achieve a higher degree of financial stability and financial inclusion. Most OIC member states do not provide an explicit deposit insurance for customers. Member countries need to take necessary steps to establish and implement an effective deposit insurance scheme. Deposit insurance is as a necessity for a sound banking system, as it will improve trust to the system and prevent bank-runs in the times of stress as well as the amplification of shocks.

Policy Advice 3. A regulatory and supervisory Framework needs to be developed specifically for Islamic Banking in order to benefit from the significant growth potential of Islamic Banking System.

Rationale:

Islamic banking plays an important role in the banking sector of the OIC member states and exhibits a significant growth potential. Currently, Islamic banking is regulated and supervised under the regulatory and supervisory frameworks designed for the conventional banking system as there is no separate regulation scheme for Islamic banking. As functioning of conventional and Islamic banking are significantly different, and considering the prominent growth prospects of Islamic banking, a regulatory and supervisory framework designed specifically for Islamic banking unfolds as a necessity. OIC member states should take the necessary actions to make regulation and supervision practices comply with the peculiarities in Islamic banking.

Instruments to Realize the Policy Advices:

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

- ***COMCEC Project Funding:*** Under the COMCEC Project Funding, the COMCEC Coordination Office calls for project 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 and their sub-areas, the Member Countries can utilize the COMCEC Project Funding and the COMCEC Coordination Office may finance the successful projects in this regard. The projects may include seminars, training programs, study visits, exchange of experts, workshops and preparing analytical studies, needs assessments and training materials/documents, etc.

- ***Capacity Building Activities:*** With the COMCEC Coordination Office's resources and Member Countries' own resources, some capacity building and technical assistance programs on the aforementioned policy areas and their sub-areas can be organized in the Member Countries. These activities may include seminars, training programs, study visits, exchange of experts, workshops and preparing analytical studies, needs assessments and training materials/documents, etc.

- ***Meetings of the initiatives under the COMCEC:*** In its next meetings, the initiatives under the COMCEC may focus on the above mentioned policy areas.

Annex 4: List of Participants

A. INVITED STATES

PEOPLE'S REPUBLIC OF BANGLADESH

- Mr. DEWAN TAUHIDUL ISLAM
  Deputy General Manager, Bangladesh Bank

- Mr. ASHIM KUMAR MAJUMDER
  Deputy General Manager

REPUBLIC OF BENIN

- Mr. RICHARD MEKPOH
  Deputy Director General,
  Ministry Of Development, Economic Analysis and Prospective

REPUBLIC OF BURKINA FASO

- Mr. RICHARD MEKPOH
  Deputy Director General,
  Ministry Of Development, Economic Analysis and Prospective

REPUBLIC OF CAMEROON

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

REPUBLIC OF GAMBIA

- Mr. ESSA A.K DRAMMEH
  Director, Financial Supervision Department Central Bank of the Gambia

REPUBLIC OF IRAQ

- Mr. ABEER AL-HUMAIRI
  Director, Ministry of Finance

- Mr. MOHAMMED HAMED NAWAF
  Senior Researcher, Central Bank of Iraq

- Mr. AHMED YOUSIF KADHIM
  Banking Supervisor

ISLAMIC REPUBLIC OF IRAN

- Mr. MAHDI ABDOLLAHI
  Senior Officer, Central Bank Of Islamic Republic of IRAN (CBI)

HASHEMITE KINGDOM OF JORDAN

- Mr. AHMAD HASAN HMAIDAT
  Head of Borrowing Division, Ministry of Finance

THE STATE OF KUWAIT

- Mr. SARA ALJASMI
  Economic Analyst, Ministry of Finance

REPUBLIC OF MOZAMBIQUE

- Mr. UMAIA MAHOMED
  Director, Bank of Mozambique

- Mr. AGNELIO PITA
  Official (Research and Regulation), Bank of Mozambique

REPUBLIC OF NIGER

- Mr. MOHAMED MOUDDOUR
  Director Executive, Professional Banks Association

- Mr. IRO ABOUBACAR
  Division Chief, Ministry of Finance

STATE OF PALESTINE

- Mrs. IFHAM AL SAMHAN
  Head of Department, Ministry of Finance

- Mr. MUSTAFA ABUSALAH
  Division Chief, Palestine Monetary Authority

ISLAMIC REPUBLIC OF PAKISTAN

- Mr. SHAUKAT ZAMAN
  Director, State Bank of Pakıstan (SBP)

- Mr. MUHAMMAD SALEEM
  Additional Director, State Bank of Pakıstan (SBP)

THE STATE OF QATAR

- Mr. SAHAIM AL THANI
  Supervisor, Qatar Central Bank

REPUBLIC OF SUDAN

- Ms. FAIZA MOHAMED
  Director General, Ministry Of Finance and National Economy

- Ms. ASMAA KHAIRI
  Director, Central Bank of Sudan

REPUBLIC OF TOGO

- Mr. KWAMI MICHEL ADOUVO
  Research Officer, Ministry of Economy and Finance

REPUBLIC OF TUNUSIA

- Mr. BECHIR GHARBI
  Head of Department, Ministry of Finance

REPUBLIC OF TURKEY

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

- Mr. HASAN HÜSEYİN KARLIOĞLU
  Supervisor, Banking Regulation and Supervision Agency

- Mr. ERHAN AKKAYA
  Specialist, Turkish Republic Central Bank

- Mr. VEYSEL ERGENÇ
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  Head of Department

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