



ISLAMIC FINANCE TASK FORCE

26 September 2012

- Islamic finance has progressed tremendously from modest size of about US\$150 billion in mid-1990s. Over the past decade, it has grown by 14% p.a., despite global financial crisis, to an estimated US\$1.1 trillion in 2011. It is expected to reach US\$1.8 trillion by 2016.
- More than 600 Islamic financial institutions operating in more than 75 countries, offering a wide range of products and services.
- Apart from Islamic banking, Sukuk market is a major contributing segment driving the growth:
 - ✓ Sukuk (primary market) grew 57% p.a. globally during 2001–2010 period.
 - ✓ Total issuance rose further from USD54.9bn in 2010 to USD92.3bn in 2011. In 1H12, USD70.7bn was already issued.
 - ✓ Total sukuk outstanding increased from USD146bn as at end-2010 to USD243bn as at 30 June 2012.

- Main factors underpinning the growth of the Islamic financial services industry in the past decade:
 - ✓ Increased demand for Shariah-compliant assets;
 - ✓ Motivation for supply side to cater to wider investor base;
 - ✓ Initiatives to develop Islamic finance in some jurisdictions;
 - ✓ Growing need and demand for product diversity;
 - ✓ Participation from both Islamic and non-Islamic institutions; and
 - ✓ Development of supporting infrastructure and institutional framework.

Size of Global Islamic Capital Market

Shariah-Compliant Equities

- Dow Jones Islamic Market World Index has 2,510 component stocks from 54 countries with total market cap of USD17.7 trillion* as at end-Aug 2012
- Technology is largest sector (22%) followed by Oil & Gas (17%) and Healthcare (17%)

Sukuk

- USD243 billion outstanding as at end-June 2012
(*source: IFIS*)

Islamic Funds

- USD50 - 60 billion in net asset value / asset under management[^]

* The often-quoted size of global Islamic finance (currently about USD1.1tn) does not include market cap of Shariah-compliant equities

[^] USD58 billion in 2010 (Ernst & Young Islamic Funds and Investments Report 2011)

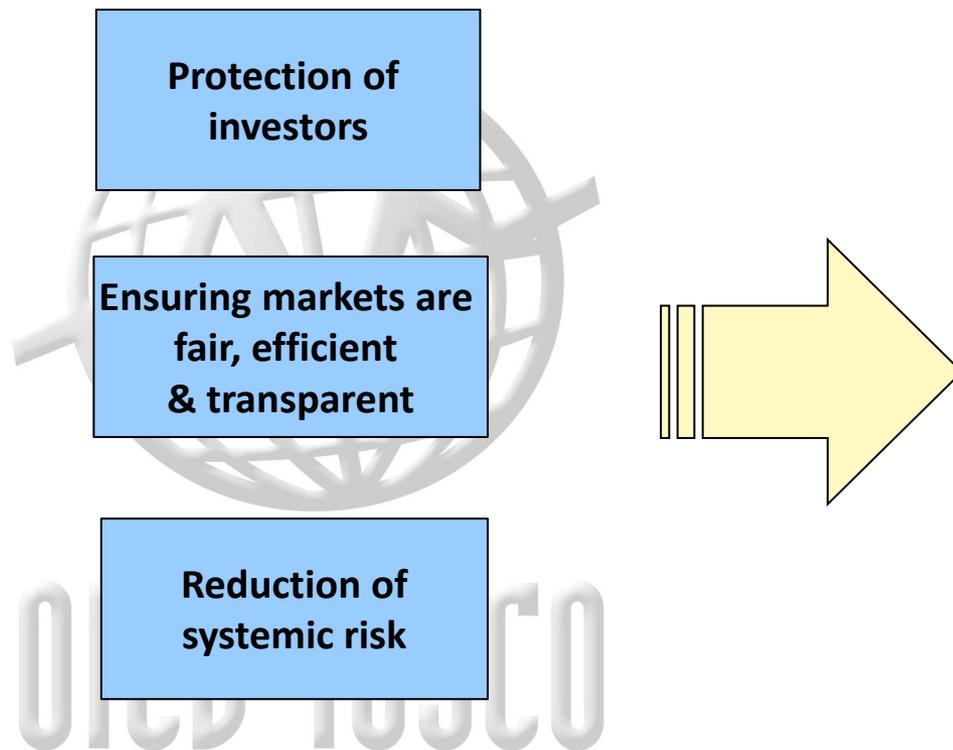
- Islamic finance, based on principles and values that are universally-accepted, offers a viable alternative to conventional finance, which has been widely affected by the global financial crisis and current economic turmoil.
- As more jurisdictions and players participate in the industry, Islamic finance is expected to contribute to more efficient mobilisation and allocation of funds across regions – strengthening international financial and economic linkages between jurisdictions, and bringing mutual benefits to all stakeholders.
- Sukuk segment plays a key role in the internationalisation of Islamic finance – an important avenue for international fund raising and investment activities, generating significant cross borders flows.
- The positive prospects also means there is a real need for regulators to be prepared to regulate and supervise activities in the Islamic finance space.

IOSCO Islamic Capital Market Task Force Report 2004

- Islamic Capital Market (ICM) constitutes a segment of the wider global securities market, the regulatory health and proper functioning of which falls within IOSCO's objectives.
- A capital market with a sound regulatory framework and appropriate supporting infrastructure must first be present in order to nurture and support an ICM component.
- While conventional principles of securities regulation may be applied to ICM, there may be, in certain instances, a need for more specific guidelines to be introduced to ensure that the unique aspects of ICM products are appropriately regulated.
- There is no need to formulate separate regulatory principles for ICM. By extension, IOSCO's objectives and principles of securities regulation can be applied to ICM.

Reaffirmed in 2008 - Analysis of Application of IOSCO's Objectives and Principles of Securities Regulation for Islamic Securities Products 2008

Universal Principles of Securities Regulation Apply to ICM



- Product and services must be true to label
- Leverage on existing infrastructure
- Additional disclosures where necessary
- Opportunities for regulatory arbitrage must be minimised
- Trust in the system to be safeguarded
- Benchmarking against international standards
 - Standards of documentation
 - Governance structure and practices
 - Level of transparency and disclosure
 - Promotion of cross-border activities and services

- Ensure base-line application of rules governing disclosure, investor protection, fair and orderly market
- Introduce legislative changes to remove impediments and to provide certainty
- Issue legally binding guidelines, rulings and requirements where necessary to cover
 - Product regulation
 - Intermediation services
 - Shariah governance
- Adopt market-based approach by requiring disclosure rather than merit assessment relating to product offerings
- Remove tax impediments (to achieve level playing field) and introduce temporary incentives where appropriate

A Two-Tier Regulatory Framework

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General Regulatory Requirements

- **Bonds/Sukuk** – Trust deed, mandatory rating, eligible issuers etc
- **Unit Trust/Islamic Unit Trust** – Investment committees, trustees, management company etc
- **REITs/Islamic REITs** – At least 75% investment in real estate

Applicable to
both
conventional
and Islamic
products

2

Shariah-Specific Requirements

- **Sukuk** – Approved Shariah principles, Shariah adviser, utilisation of proceeds
- **Islamic Unit Trust** – Shariah adviser to certify that fund complies with Shariah requirements
- **Islamic REITs** – Tenants' activities and rental income must comply with Shariah requirements
- **Islamic Structured Products** – Approved Shariah concept and principles

Applicable to
Islamic
products

This framework ensures investors in ICM products receive same degree of clarity, certainty and protection as those in conventional products

Needs & Challenges

- Establishing appropriate institutional, legal, regulatory frameworks
- Achieving economies of scale
- Broadening and deepening range of products and services
- Enhancing capabilities, e.g. product structuring, distribution, advisory
- Reducing divergence in Shariah interpretations
- Dispelling concerns/misperceptions on Islamic finance

Potential Solutions

- Government-led or top-down approach in building infrastructure
- Collaborations among industry and/or regulators
- Joint research on product innovation & development
- Capacity building and thought leadership initiatives
- Information & knowledge sharing
- Stakeholder awareness and education

Regulatory

- Specific licence for Islamic Fund Management Companies, with flexibility on foreign ownership and international investments
- Mutual recognition agreements (MRAs) with Dubai and Hong Kong counterparts for cross-offering of Islamic collective investment schemes

Collaborations

- Close working relationship with IOSCO and IFSB – representation in working groups, committees, co-organised IFSB-IOSCO Roundtable on Disclosure Requirements for ICM Products, led IOSCO’s Islamic Capital Market Task Force that published the *Islamic Capital Market Fact Finding Report* (2004)
- Organising ASEAN Capital Market Forum (ACMF) ICM Workshop for regional cooperation in the Islamic Capital Market
- Collaboration with Oxford Centre for Islamic Studies (OCIS):
 - *Flagship programme is annual SC-OCIS Roundtable – an international thought leadership platform for in-depth discussion on contemporary Islamic finance issues*
 - *SC-OCIS Scholar-in-Residence programme – to undertake research on applied and contemporary issues with respect to global Islamic finance*

Shariah Governance

- Registration of qualified foreign Shariah advisers
- Revised Shariah screening methodology for listed companies

Key Imperatives for Further Development of ICM

- ICM products must be universally appealing and be integrated into the global financial system
- Emergence of more Islamic finance hubs/centres globally to facilitate more cross-border ICM transactions and activities
- Concerns on investor protection, dispute resolution, legal recourse, etc. in respect of Islamic finance must be satisfactorily addressed
- Closer cross-border collaboration among stakeholders, including on market supervision, Shariah governance, product innovation & development
- Greater use of IF/ICM instruments for international trade and investment activities (especially intra-OIC)
- Establishing stronger linkages between Islamic finance and the non-financial halal industries
- Sustained and effective human capital development strategy
- Achieving greater financial inclusion

Potential Areas for Regulatory Cooperation & Collaboration

Expand and intensify information & knowledge sharing – e.g. workshops, roundtables, staff attachments

Encourage and facilitate establishment and growth of Islamic financial services institutions to broaden and deepen intermediation capability

Promote joint research on product innovation & development

Develop and enhance facilities/platforms for capacity building and thought leadership

Facilitate cross-border distribution channels to enable greater market reach – e.g. mutual recognition agreements

Support and/or participate in initiatives by relevant global standard-setting bodies

Encourage disclosure of detailed rationale for Shariah rulings by Shariah committees to enhance appreciation of Shariah interpretations

Develop and implement joint awareness and education programmes for stakeholders, including regular engagements with media for continuous profiling

Develop and maintain comprehensive database on Islamic finance

Thank You

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