

OIC MEMBER STATES' STOCK EXCHANGES FORUM  
8 TH MEETING

İSTANBUL, NOVEMBER 11, 2014

Raffles Hotel  
İstanbul, November 2014

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FINAL REPORT  
OIC MEMBER STATES' STOCK EXCHANGES FORUM  
8 TH MEETING  
(İstanbul, November 11, 2014)

1. The Eighth Meeting of the OIC Member States' Stock Exchanges Forum (Meeting) convened in İstanbul on November 11, 2014.
2. The Meeting was held in conjunction with the “International Conference on History, Theory and Practice of Islamic Economics and Finance: The Case of Turkey”, organized in cooperation between Borsa İstanbul and Marmara University.
3. The Meeting was attended by the representatives of the following capital market institutions of the OIC Member States:

**A. STOCK EXCHANGES OF THE OIC MEMBER STATES**

1. Amman Stock Exchange, Jordan
2. Borsa İstanbul, Turkey
3. BRVM Mali, Mali
4. Bursa Malaysia, Malaysia
5. Dhaka Stock Exchange, Bangladesh
6. Douala Stock Exchange, Cameroun
7. Iran Fara Bourse, Iran
8. Iraq Stock Exchange, Iraq
9. Islamabad Stock Exchange, Pakistan
10. Lahore Stock Exchange, Pakistan
11. Muscat Securities Market, Oman
12. Qatar Exchange, Qatar
13. Saudi Stock Exchange (Tadawul), Saudi Arabia
14. Tehran Stock Exchange, Iran
15. Tirana Stock Exchange, Albania

**B. CENTRAL DEPOSITORIES, CLEARING AND REGISTRY INSTITUTIONS  
OF THE OIC MEMBER STATES**

1. Central Registry Agency of Turkey, Turkey

2. Istanbul Custody and Settlement Bank, Turkey
3. National Clearing Company of Pakistan Ltd. (NCCPL), Pakistan

### **C. OTHER ORGANIZATIONS**

1. COMCEC Coordination Office
2. Islamic Development Bank (IDB)
3. World Bank Global Islamic Finance Development Center

### **Opening and Seminar Session**

4. Following a brief introduction of the program, the Meeting was opened by Mr. İbrahim M. TURHAN, Forum Chairman, and Chairman & CEO of Borsa İstanbul. Mr. TURHAN welcomed all delegates and conference guests to İstanbul on the occasion of the eighth meeting of the OIC Member States' Stock Exchanges Forum and expressed his honour and contentment for opening the OIC Member States' Stock Exchanges Forum for the third time. Mentioning that the Muslim world must work harder and invest in human capital, "to determine our road map on future outlook of the Forum, set up the relevant action plan and move forward" stated Mr. TURHAN and gave the floor to Mr. Selçuk KOÇ, Director at COMCEC Coordination Office. Mr. KOÇ gave a welcome speech and briefed delegates on the activities of COMCEC and the COMCEC Financial Cooperation Working Group.
5. Mr. TURHAN, as moderator of the Meeting, invited Mr. Mahmut AYDOĞMUŞ to give a background of Forum activities and suggestions for future mission and activities of the Forum. Mr. AYDOĞMUŞ then made a presentation on the OIC Exchanges Statistics Report, which was shared with Forum Members on the occasion of this Meeting. The presentation summarized key market highlights of OIC markets on equity, debt instruments and derivatives market.

*(Copies of Mr. Mahmut AYDOĞMUŞ's presentations are herewith attached as Annex 1)*

6. Mr. Zamir IQBAL, Head of World Bank Global Islamic Finance Development Center, made a presentation on opportunities provided to small and medium sized enterprises by Islamic finance.

*(A copy of the presentation by Mr. Zamir IQBAL is herewith attached as Annex 2)*

7. Mr. Jahangir SULTAN, Professor of Finance at Bentley University, delivered a presentation entitled "Promoting Responsible Financing in OIC Countries".

*(A copy of the presentation by Mr. Jahangir SULTAN is herewith attached as Annex 3)*

8. Mr. Muammer ÇAKIR, Derivatives Market Group Director of Borsa İstanbul, made a presentation on derivatives market.

*(A copy of the presentation by Mr. Muammer ÇAKIR is herewith attached as Annex 4)*

## DECISIONS

The following decisions were taken at the meeting:

1. The Forum's main objective is to gather OIC Exchanges in an annual basis and to provide an opportunity for open debate. The Forum Coordinator will show its best effort to ensure communication and coordination among Forum Members. Members are asked to provide topics and/or questions for discussion for the next meetings.
2. The Forum mandates the Task Force on Indices to collaborate with index providers and work on the creation of sub-indices for the S&P OIC COMCEC Shariah 50 Index and report it back to the Forum. Forum Members will show best effort to promote the index in their markets.
3. The Forum mandates the Task Force on Commodities Market to meet regularly via conference calls to discuss developments in their respective commodities markets, potential cooperation areas such as product development and Islamic derivatives, and report it back to the Forum.
4. The Forum appreciates OIC Exchanges' Integrated Statistics Report prepared by the Forum Coordinator. The Forum mandates the Forum Coordinator to publish the report on an annual basis. All Forum Members are encouraged to participate actively to the survey distributed by the Forum Coordinator. The survey will include more comprehensive questions on products and listed companies in OIC Exchanges. Information on foreign participation and intra-OIC markets capital flow will be included if sources are available. The survey will also be sent to central depositories of OIC Members.
5. The Forum will create a more interactive environment for free flow of information among Forum Members.
6. Given that the World Bank Global Islamic Finance Development Center has become operational, the Forum mandates the Forum Coordinator to collaborate with the Center to share their studies on Islamic finance with Forum Members, and publish such studies on Forum website. The Forum Coordinator will also show best effort to this end to coordinate with other key institutions such as Islamic Development Bank (IDB), International Islamic Financial Market (IIFM), Islamic Financial Services Board (IFSB) and Statistical,

Economic and Social Research and Training Center for Islamic Countries (SESRIC) and others with Forum Members.

7. The Forum Coordinator will continue to distribute the quarterly newsletter updating members on the recent developments on OIC markets and Islamic finance.
8. The conclusions of the meeting will be reported to the 30th session of COMCEC to be held in Istanbul on November 25-28, 2014.
9. The next annual meeting of the Forum is planned to be held in Sept – Oct 2015 in Istanbul.

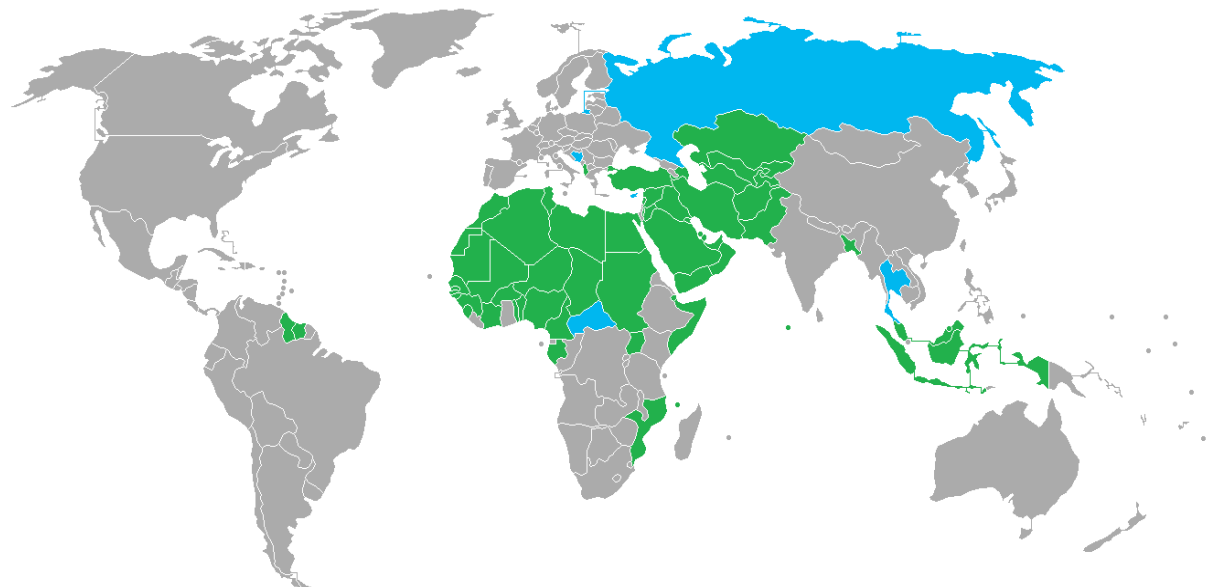


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*Benchmark for Investment*

OIC Member States'  
Stock Exchanges Forum  
8th Meeting  
November 11, 2014

# Background



The Forum;

- ▶ Initiated - 20th session of the Standing Committee for Economic and Commercial Cooperation of the OIC (COMCEC) – 2004
- ▶ Dedicated platform and communication channel for the members
- ▶ Currently 57 members from 37 countries:
  - 42 stock exchanges
  - 7 clearing, settlement, registry and depository institutions
  - 8 related organizations (SESRIC, IIFM, IFSB etc.)

Note: Blue represents observers, green represents members





# Background



- ▶ First Round-table Meeting, Istanbul - March 2005
- ▶ Second Annual Meeting, Istanbul - October 2008
  - ✓ A working committee and four task forces established
- ▶ First Working Committee Meeting, Tehran - May 2009
- ▶ Third Annual Meeting, Istanbul - October 2009
  - ✓ Task forces renamed and new tasks assigned
  - ✓ Final Report submitted to the COMCEC
  - ✓ In the COMCEC meeting, regulatory bodies of the OIC member states requested to establish a similar platform to boost cooperation efforts
- ▶ Third Working Committee Meeting, Abu Dhabi - April 2010
- ▶ Fourth Annual Meeting, Istanbul - October 2010
- ▶ Fourth Working Committee meeting - April 2011
  - ✓ Cancelled due to the conflicts in the MENA region
- ▶ Fifth Annual Meeting, Istanbul- September 2011
- ▶ Sixth Annual Meeting, Istanbul- September 26, 2012
- ▶ Seventh Annual Meeting, Istanbul- September 19, 2013



# Decisions of the Seventh Annual Meeting Istanbul- September 19, 2013

Task Force on Indices

Acceptance of Commodity Markets to the Forum

Task Force on Commodity Markets

Building knowledge and capacity on Islamic capital markets

Newsletter and Statistics Report



# Task Force on Indices

## Background:

- **S&P/OIC COMCEC 50 Shariah Index** launched on June 25, 2012
- Measures performance of 50 leading Shariah-compliant companies from OIC member states
- Companies from 19 countries
- Screened for Shariah compliance by S&P in accordance with S&P Shariah Indices Methodology
- Global investment banks, HSBC and Deutsche Bank, have been contacted and asked to work on issuing ETFs and alike financial instruments on the Index.

## Motive:

- Absence of a Shariah-compliant index constituting companies from OIC stock markets
- Rising demand for Islamic financial securities

## Purpose:

- Increasing awareness about OIC markets
- Facilitating collaboration among OIC Exchanges
- Promoting the Forum
- Creating different investment alternatives through structured products based on the Index
- Providing a benchmark for OIC markets' performances



# S&P/OIC COMCEC 50 Shariah Index

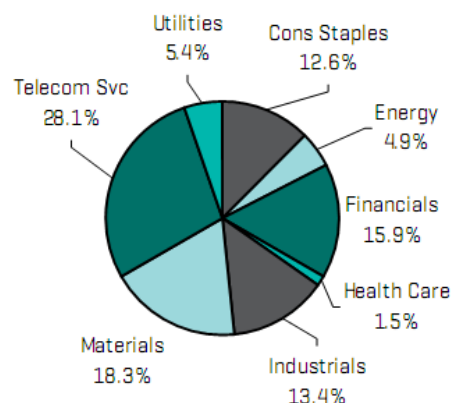
## S&P/ OIC COMCEC 50 Shariah Index;

- the Task Force continues its work with S&P Dow Jones, IDB Islamic Development Bank and fund managers
- work on the promotion of the Index
- approach investment banks in order to create structured products based on the Index

### Portfolio Characteristics

Number of Companies	50
Number of Countries	19
Adjusted Market Cap (USD Billion)	168.77
Company Size By Market Cap (Adj USD Billion):	
Average	3.38
Largest	18.55
Smallest	0.10
Median	2.73
% Weight Largest Company	5.29%
Top 10 Holdings (% Index Weight)	42.42%

### Sector Breakdown



### Country Breakdown

	Country Weights	Number of Companies
Bahrain	0.1%	1
Bangladesh	0.3%	1
Cote d'Ivoire	0.4%	1
Egypt	0.6%	1
Indonesia	19.7%	8
Jordan	0.1%	1
Kazakhstan	3.6%	2
Kuwait	9.0%	3
Lebanon	1.1%	1
Malaysia	20.4%	7
Morocco	2.4%	2
Nigeria	0.6%	1
Oman	0.6%	1
Pakistan	0.9%	1
Qatar	7.5%	3
Saudi Arabia	20.7%	8
Tunisia	0.1%	1
Turkey	11.7%	6
U.A.E.	0.3%	1



# Taskforce on Commodity Markets

## Background:

- Established by decision taken at the 7th Forum Meeting
- Bursa Malaysia, Borsa İstanbul and Dubai Mercantile Exchange are the members

## Motive:

- OIC countries are well-resourced, growing commodity markets
- Need for product development/standardization of Islamic derivatives.

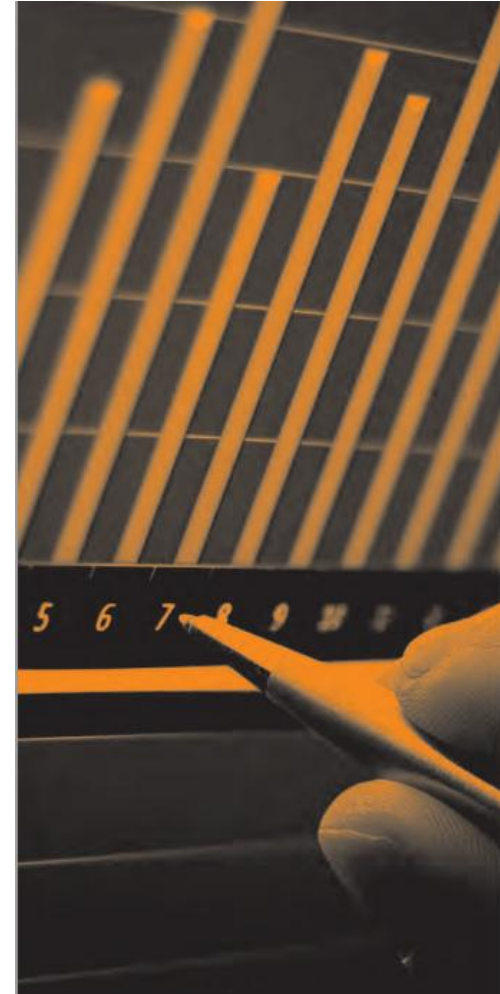
## Purpose:

- Contributing to further development of OIC commodity markets
- Sharing know-how, expertise and best practices
- Facilitating standardization and joint product development of Islamic derivatives among exchanges



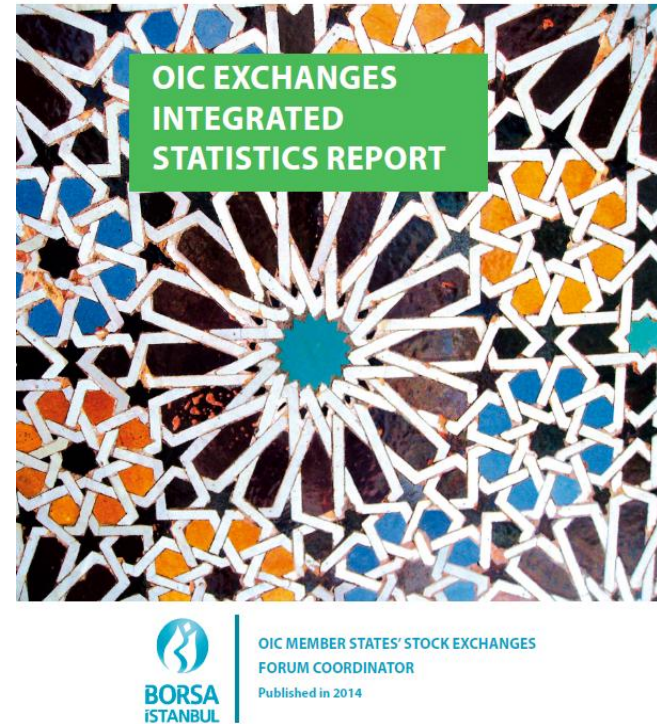
# Building knowledge and capacity on Islamic capital markets

- World Bank Global Islamic Finance Development Center presenting on 'Islamic Finance and Opportunities for SME Financing'
- Professor Jahangir Sultan from Bentley University presenting on 'Shariah compliant ADRs'
- Joint program with Marmara University on 'International Conference on History, Theory and Practice on Islamic Economics and Finance'
- Meeting with SESRIC during Finance Working Group – COMCEC, discussions on statistics and agreement on the need for 'OIC Exchanges Integrated Statistics Report'
- Borsa Istanbul Research and Business Development Dpt. provided contributions to IIFM white papers and participation of relevant staff to IFSB meetings



# Website, Newsletter and Statistics Report

- Website updated
- Newsletters circulated
- Annual statistics report prepared



# The Way Forward







Thank you.

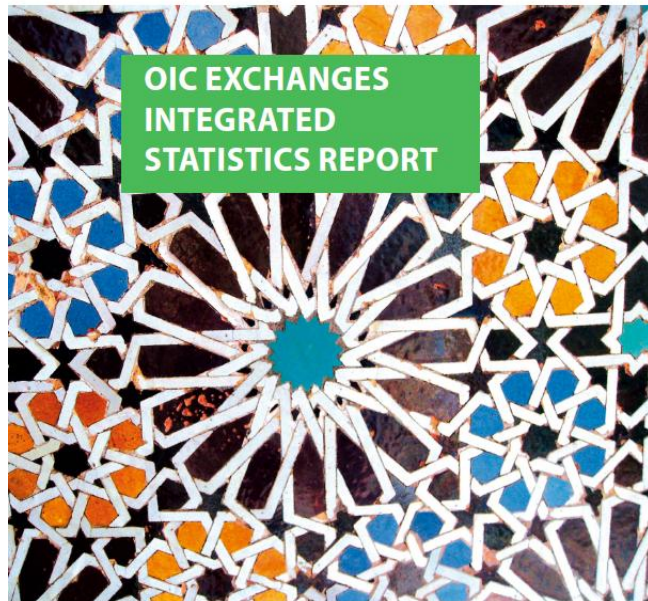


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# OIC Exchanges Integrated Statistics Report

# Background



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OIC MEMBER STATES' STOCK EXCHANGES  
FORUM COORDINATOR  
Published in 2014

- In line with the decision taken at the 7th Forum Meeting, the Forum Coordinator initiated a study to collect statistical information from OIC Markets.
- With the motivation of being the first study of its kind, the report brings together main statistical highlights of Forum Members and provides information on the performance of OIC Exchanges.
- The main objective of this study is to provide key indicators of OIC Markets, make a comparison with global markets and observe areas for improvement to lead a possible discussion on the potential of OIC Markets.



# Methodology

- A fact sheet was sent to all Forum Members.
- 19 Forum Members actively participated:
  - Abu Dhabi Securities Exchange, Amman Stock Exchange, Baku Stock Exchange, Beirut Stock Exchange, Borsa İstanbul, Bursa Malaysia, Chittagong Stock Exchange, Dubai Financial Market, Douala Stock Exchange, Egyptian Stock Exchange, Iran Fara Bourse, Kazakhstan Stock Exchange, Lahore Stock Exchange, Muscat Securities Market, Qatar Stock Exchange, Societe De Gestion de la Bourse des Valeurs, Saudi Stock Exchange (Tadawul), Tehran Stock Exchange, Bourse De Tunis.
- For others, available data from World Federation of Exchanges (WFE), Federation of Euro-Asian Stock Exchanges (FEAS) and Arab Federation of Exchanges (AFE) were utilized.

**The Organization of Islamic Cooperation Exchanges**

**OIC MEMBER STATES' STOCK EXCHANGES FORUM MEMBER SURVEY**

Please kindly complete the survey and send it back to the Forum Coordinator through e-mail ([ifreational@borsaitanbul.com](mailto:ifreational@borsaitanbul.com)) no later than 26th March 2014. We thank you in advance for your time.

**I. General Information**

Name of Exchange:

Date of Establishment:

Principal Contact Name:

Telephone:

Facsimile:

E-mail:

Ownership structure:

Name and Titles of the Executive team members:

Mailing Address:

**II. Market Information**

Existing Markets (Equity, debt instruments etc.):

Number of Listed Companies:

	end 2013	end 2012
domestic:	<input type="text"/>	<input type="text"/>
foreign:	<input type="text"/>	<input type="text"/>

Definition: Number of companies which have shares listed on an exchange at the end of the period, excluding investment funds and unit trusts. A company with several classes of shares is counted just once. Only companies admitted to listing are included.

Market Capitalization (USD millions):

	end 2013	end 2012
	<input type="text"/>	<input type="text"/>

Value of Share Trading (USD millions):

	2013	2012
	<input type="text"/>	<input type="text"/>

Value of Debt Instruments traded (bond, sukuk etc. in USD millions):

	2013	2012
	<input type="text"/>	<input type="text"/>

- The report consolidates key figures on Equity Markets, Debt Securities and Derivatives Markets from available data as of end 2012 and 2013. Individual fact sheets are provided in the annex.
- A comparison with global markets was provided using data of WFE and World Bank Group.



# Market Highlights – Equity Market

Market Capitalization = 2,63 tn.\$ ↑ 5,9%

Value of Share Traded = 1,25 tn.\$ ↑ 3,2%

(2013 figures compared to 2012)

- In 2013, OIC Exchanges' market capitalization increased from 2,48 trillion USD to 2,63 trillion USD. Value of share traded increased from 1,21 trillion USD to 1,25 trillion USD.
- The largest five market capitalizations of the Forum Members are Bursa Malaysia, Tadawul, Indonesia Stock Exchange, Borsa İstanbul and Tehran Stock Exchange. Their market capitalization represents 66,3% of the total market capitalization of Forum members.
- The five largest exchanges by value of share traded are Borsa İstanbul, Tadawul, Bursa Malaysia, Indonesia Stock Exchange and Dubai Financial Market (DFM). Almost 90% of trades in OIC Markets are realized in these five markets.



# Market Highlights – Equity Market

		Market Cap. 2012 (in mio USD)	Market Cap. 2013 (in mio USD)	Change
1	ADX	69.575	109.639	57,6%
2	Amman SE	26.998	25.717	-4,7%
3	Bahrain SE**	15.532	18.469	18,9%
4	Baku Stock Exchange	-	-	-
5	Beirut SE	10.387	10.252	-1,3%
6	Borsa İstanbul	310.000	238.000	-23,2%
7	Bursa Malaysia	478.590	517.763	8,2%
8	Casablanca SE*	52.480	53.831	2,6%
9	Chittagong SE	22.376	26.023	16,3%
10	Damascus SE**	952	836	-12,2%
11	DFM	49.496	70.647	42,7%
12	Douala SE	225	282	25,3%
13	EGX	59.607	61.724	3,6%
14	Indonesia SE*	428.223	346.674	-19,0%
15	Iran Fara Bourse	37.048	40.975	10,6%
16	Iraq SE***	3.887	9.563	146,0%
17	Karachi SE**	43.690	57.626	31,9%
18	Kazakhstan SE	35.581	28.243	-20,6%
19	Kuwait SE***	106.437	110.478	3,8%
20	Khartoum SE***	2.185	2.052	-6,1%
21	Kyrgyz SE**	165	184	11,4%
22	Lahore SE	41.969	55.246	31,6%
23	Libyan SE***	3.245	1.808	-44,3%
24	MSM	30.299	36.767	21,3%
25	Palestine SE	2.859	3.247	13,6%
26	Qatar SE	125.996	152.221	20,8%
27	SGBV	1.668	1.763	5,7%
28	Tadawul	373.375	467.366	25,2%
29	Tehran SE	140.843	172.888	22,8%
30	Tunis SE	8.885	8.557	-3,7%
	<b>Total</b>	<b>2.482.573</b>	<b>2.628.842</b>	<b>5,9%</b>

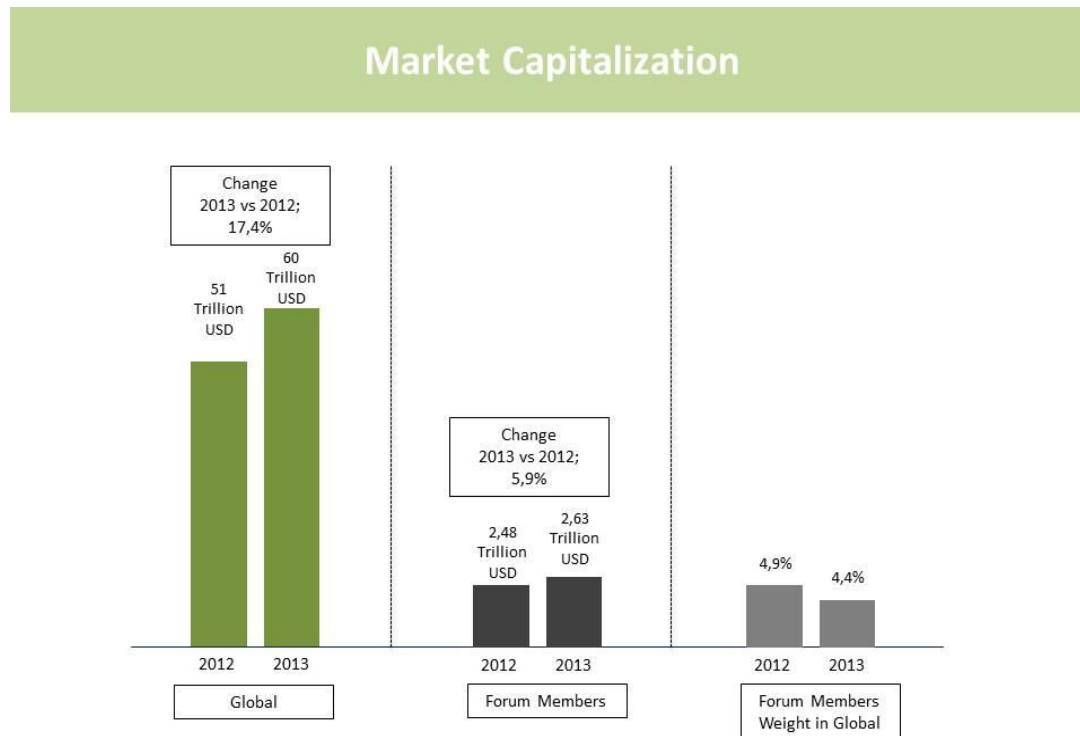
	Value of Share Traded 2012 (in mio USD)	Value of Share Traded 2013 (in mio USD)	Change
	6.058	23.130	281,8%
	2.791	4.270	53,0%
	292	599	104,9%
	642	567	-11,7%
	409	375	-8,2%
	349.000	431.000	23,5%
	142.170	160.556	12,9%
	3.470	3.161	-8,9%
	1.431	1.230	-14,1%
	28	16	-42,9%
	13.221	43.505	229,1%
	1,6	0,9	-42,2%
	20.319	17.020	-16,2%
	94.586	115.972	22,6%
	5.395	6.262	16,1%
	745	2.367	217,8%
	-	-	-
	1.376	771	-44,0%
	26.145	39.853	52,4%
	12	24	100,5%
	-	-	-
	138	121	-12,1%
	18	20	11,5%
	2.663	5.736	115,4%
	2.734	3.408	24,6%
	19.363	20.517	6,0%
	0,6	0,5	-25,8%
	514.490	365.250	-29,0%
	3.359	4.535	35,0%
	1.253	931	-25,7%
	<b>1.212.109</b>	<b>1.251.197</b>	<b>3,2%</b>

- In 2013, market capitalization of Abu Dhabi Stock Exchange (ADX), Dubai Financial Market (DFM) and Iraq Stock Exchange increased significantly.
- ADX, Bahrain Bourse, DFM, Iraq Stock Exchange and Muscat Securities Market more than doubled their equity market traded value.



# Market Highlights – Equity Market

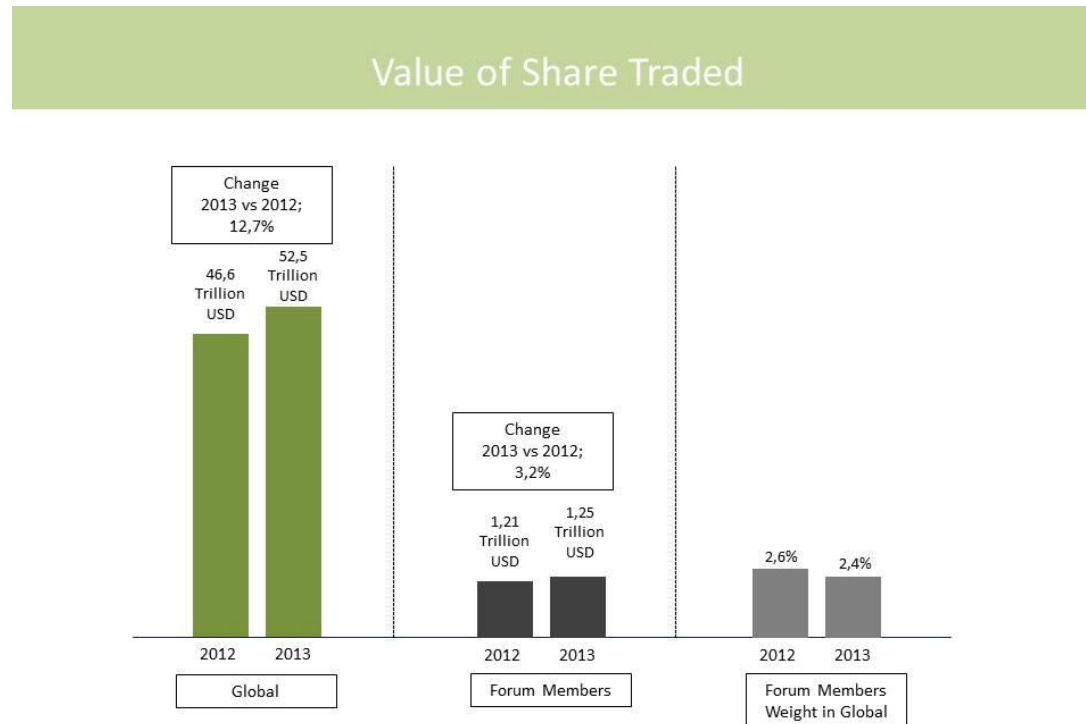
- In 2013, global market capitalization rose from 51tn.\$ to 60tn.\$ with 17,4% increase.
- Market capitalization of OIC Markets rose from 2,48tn.\$ to 2,63tn.\$ with 5,9% increase.
- Forum Members occupy 4,4% of global market capitalization in 2013, compared to 4,9% in 2012.





# Market Highlights – Equity Market

- In 2013, global value of share traded rose from 46,6 tn.\$ to 52,5tn.\$ with 12,7% increase.
- Value of share traded of OIC Markets rose from 1,21tn.\$ to 1,25tn.\$ with 3,2% increase.
- Forum Members occupy 2,6% of global value in 2013, compared to 2,4% in 2012.





# Market Highlights – Equity Market

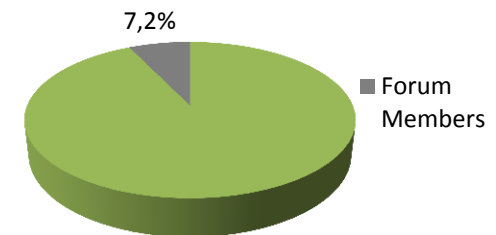
**Domestic Listed Companies = 3.427** ↑ **1%**

**Foreign Listed Companies = 36** ↑ **12,5%**

(2013 figures compared to 2012)

- In 2013, number of domestic listed companies increased from 3.404 to 3.427. Number of foreign listed companies increased from 32 to 36.
- 26% of domestic listed companies in OIC Markets is listed in Bursa Malaysia (900 companies).
- Among 36 foreign companies listed in OIC Markets; 12 companies are listed in DFM and 10 companies are listed in Bursa Malaysia.
- According to World Bank Data, in 2012, 47.520 domestic companies were listed in global markets. Companies listed in OIC Markets represent approximately 7,2% of the total listed companies in the world.

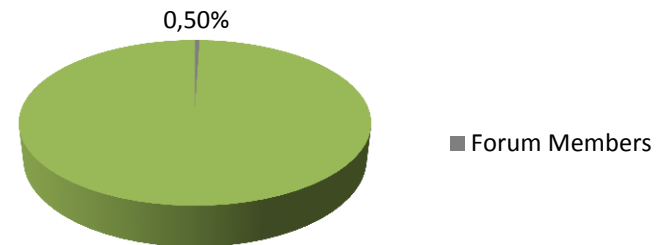
**Number of listed domestic companies in the world (2012)**



# Market Highlights – Equity Market

- As of end 2013, a total of 31 ETFs are available in 6 OIC Exchanges:
  - ADX (1)
  - Borsa İstanbul (17)
  - Bursa Malaysia (5)
  - Iran Fara Bourse (4)
  - Tadawul (3)
  - Tehran Stock Exchange (1)
- Total number of ETFs in WFE markets is 6.229 in 2013, OIC markets representing 0,5% of the WFE total.

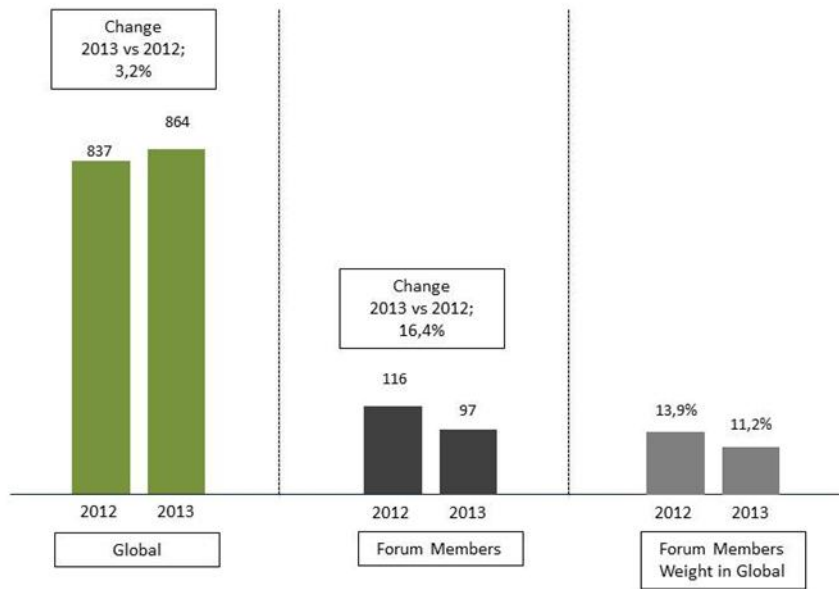
Number ETFs (2013)



# Market Highlights – Equity Market

Number of IPOs = 97 ↓ 16,4%  
(2013 figures compared to 2012)

## IPO Activity



- In 2013, global IPO activity rose from 837 to 864 with 3,2% increase (Source: E&Y Global IPO Update 2013).
- IPO activity in OIC Markets dropped from 116 to 97 with 16,4% decrease.
- IPO activity in OIC Markets represented 13,9% of global IPO activity in 2012 and 11,2% in 2013.



# Market Highlights – Debt Securities Market

Value of Debt Instruments = 3,65tn.\$  5%

(2013 figures compared to 2012)

- 17 among 20 respondent OIC Exchanges have debt instruments transactions.
- In 2013, value of debt instruments in OIC Markets dropped from 3,84tn.\$ to 3,65tn.\$ with 5% decrease. (Data includes repo transactions.)
- Value of bonds trading in WFE markets dropped from 26,35tn.\$ to 22,4tn.\$ with 15% decrease. (No comparison with WFE data due to methodological differences)
- The value of debt instruments in OIC Markets is mainly due to high transactions in Borsa İstanbul (3,6 tn.\$ in 2013).
- Exchanges who indicated trading Islamic products and/or sukuk on their markets are: Borsa İstanbul, Bursa Malaysia, DFM, Iran Fara Bourse and Tadawul.



# Market Highlights – Derivatives Market

Value of Derivatives Contracts Traded = 1,61tn.\$  550%

(2013 figures compared to 2012)

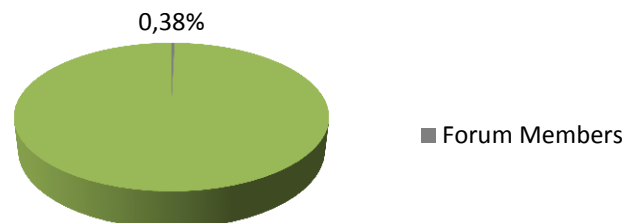
- 4 among 20 respondent OIC Exchanges indicated having derivatives contracts:
  - Borsa İstanbul
  - Bursa Malaysia
  - Kazakhstan Stock Exchange (KASE)
  - Tehran Stock Exchange
- In 2013, value of derivatives contracts traded in OIC Markets rose from 247 bn.\$ to 1,61tn.\$ with 550% increase.
- The sharp increase in OIC Markets in 2013 is due to increase in derivatives contracts traded in Bursa Malaysia (1,5 tn.\$ in 2013).



# Market Highlights – Derivatives Market

- According to WFE-IOMA 2013 Derivatives Market Survey, notional value of worldwide derivatives contract traded is 426,5 tn.\$. OIC Markets represent 0,4% of global value.

## Value of Derivatives Contracts Traded (2013)



- In 2013, highest traded contracts in OIC Markets are:
  - Index futures in Borsa İstanbul (14.943.244 contracts)
  - Crude Palm Oil Futures in Bursa Malaysia (8.014.914 contracts)
  - Currency futures in KASE (20.000 contracts)
  - Embedded put options in Tehran Stock Exchange (64.830 contracts)



# Next steps



- Forum Members are kindly asked to provide their feedbacks and suggestions for the improvement of the report.
- After any possible corrections, the report will be published on the Forum website.
- In line with the recommendations of the 7th Forum Meeting, the report might be shared with a greater audience, i.e. investors, fund managers.
- In order to provide a consolidated data on OIC Exchanges and to make the report a sustainable document, the report can be updated on an annual basis with the support of all Forum Members.



Thank you for your  
cooperation...



# Islamic Finance and SME Financing

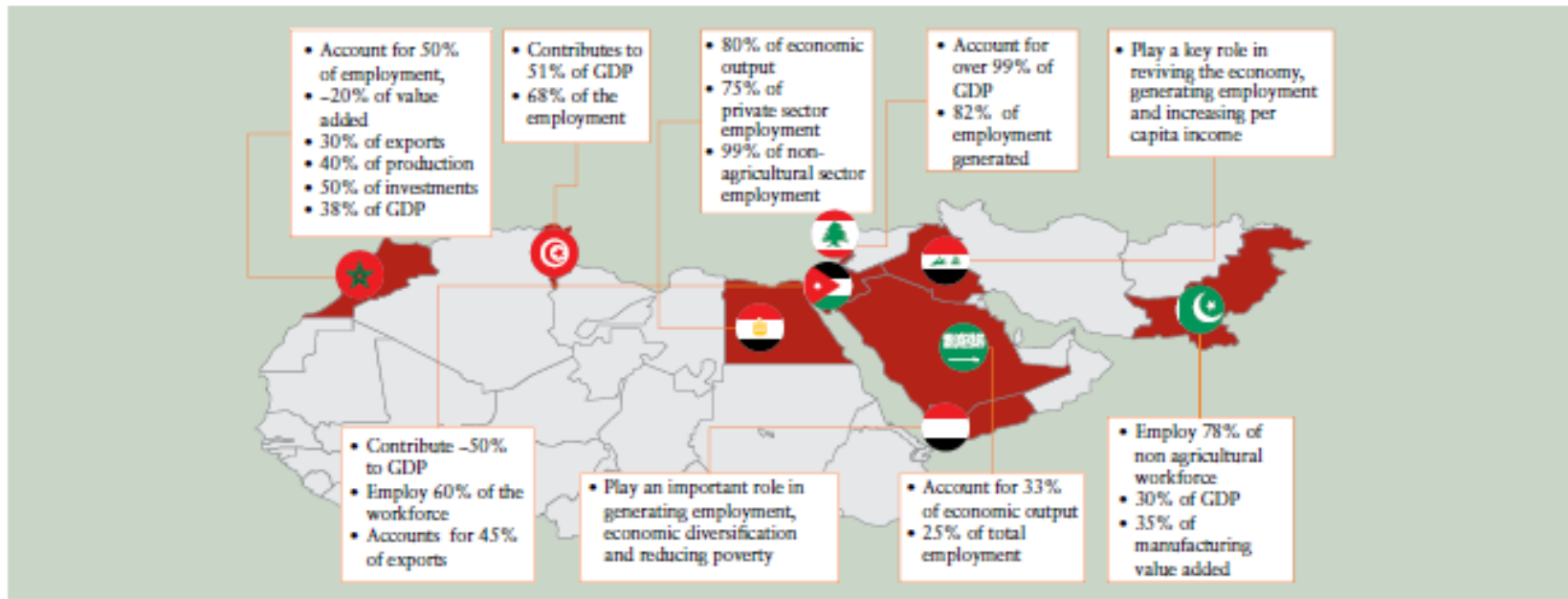
November 11, 2014

Zamir Iqbal, PhD.  
The World Bank Global Islamic Finance Development Center  
Istanbul, Turkey  
[ziqbal@worldbank.org](mailto:ziqbal@worldbank.org)

# Growing Importance of SMEs... "Engine for Growth"

- ✓ SMEs are the flagships of the economies of emerging markets
- ✓ Recent IFC study covering Egypt, Iraq, Jordan, Lebanon, Morocco, Pakistan, Saudi Arabia, Tunisia, and Yemen finds out that the proportion of SMEs in GDPs of countries ranges from 33% to nearly 99%.
- ✓ SMEs are also key actors in terms of employment, investments, and exports.

## SME Contribution to GDP in MENA Countries




Note: Statistics on the contribution of SMEs to the economies of Yemen and Iraq are unavailable  
Source: Islamic Banking Opportunities across Small and Medium Enterprises in MENA, IFC, 2014


## *Key Challenges faced by SMEs...*

- ✓ *Lack of enough funding is a key challenge for SMEs at every stage of their evolution especially during inception and development stages*

### **Inception Stage**

- Lack of Initial Capital for Setting up the business
  - Bureaucratic processes when formally registering the business
  - Lack of well-trained labor force
  - Unstable political environment
- 

### **Development Stage**

- Lack of funds to expand the business
  - Lack of enough business skills
  - Insufficient infrastructure
  - Lack of well-trained labor force
  - Weak business environment and corruption
- 

### **Maturity Stage**

- Insufficient demand conditions
- Unstable political environment
- Insufficient infrastructure
- Threats from informal sector
- Lack of intra-industry partnerships

## *Why low penetration of SME financing?*

### ***Demand side factors***

- High interest rates
- High collateral requirements
- Cumbersome processes
- Lack of customized processes
- Financial literacy
- Religious belief

### ***Supply side factors***

- Unavailability of reliable credit history
- Weak management
- Lack of financial documentation
- Conservative lending approach
- High NPLs

- ✓ *The SME penetration within the total lending is still at very low levels despite the remarkable increase in Islamic banking assets. For example, penetration in Pakistan, Egypt, Jordan, Yemen, and Morocco is 7.3%, 8.0%, 12.5%, 20.3%, and 24.0% respectively.*

*Islamic finance has certain features which give it the potential to effectively support SME financing, and economic growth and development*

**Participatory and risk-sharing financing**

**Emphasis on materiality (asset-based)**

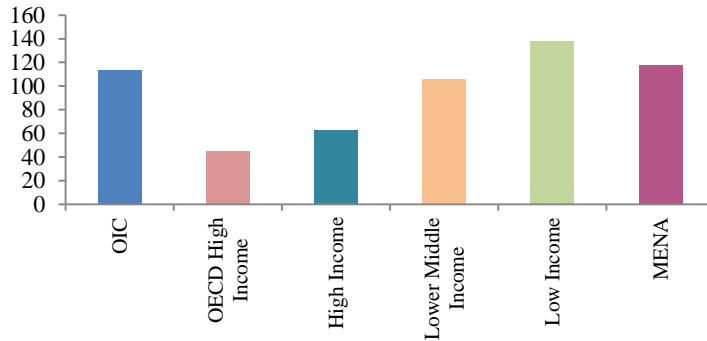
**Real Sector Financing**

**Entrepreneurship**

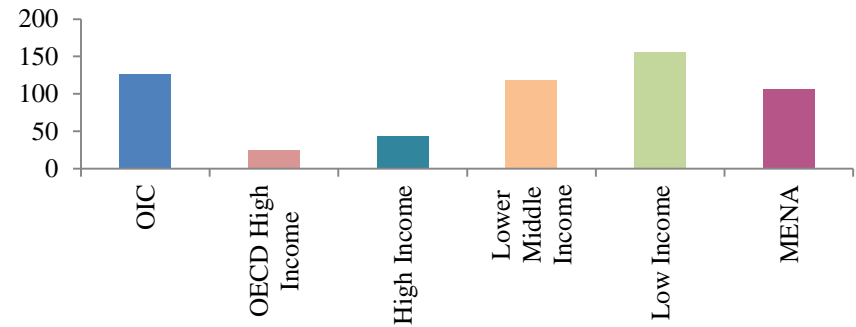
**Notion of Economic and Social Justice**

# *SME's – Conventional or **Islamic** are facing challenges due to lack of enabling environment in OIC countries*

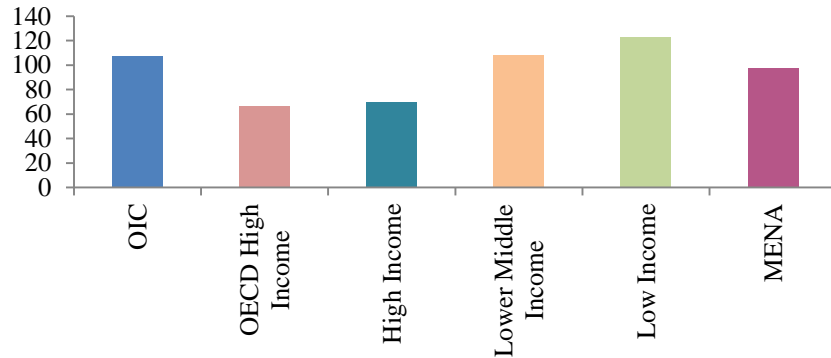
**Starting a Business**



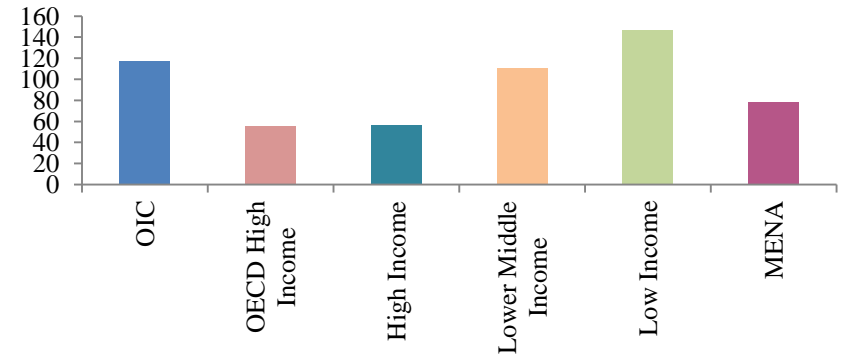
**Ease of Doing Business Rank**



**Dealing with Construction Permits**



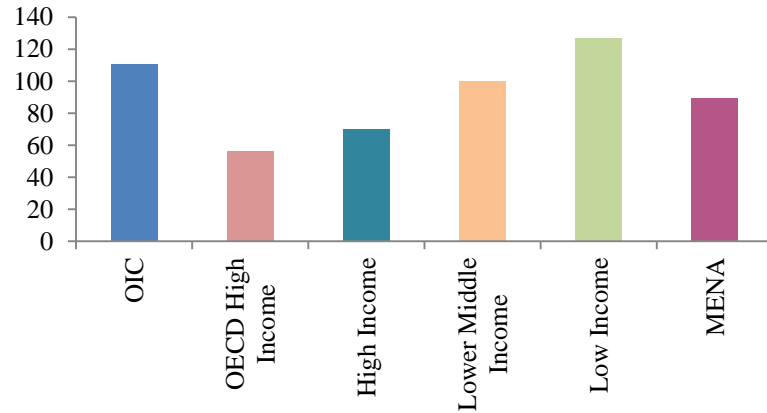
**Getting Electricity**



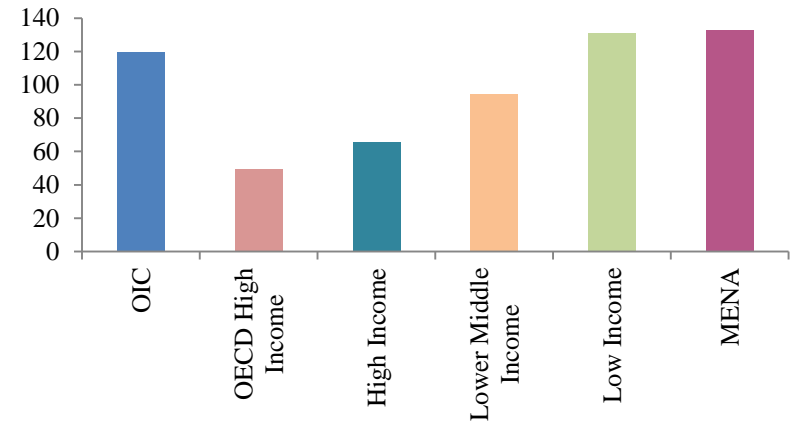
Source: World Bank Doing Business Database (2014)

# *SME's – Conventional or **Islamic** are facing challenges due to lack of enabling environment in OIC countries*

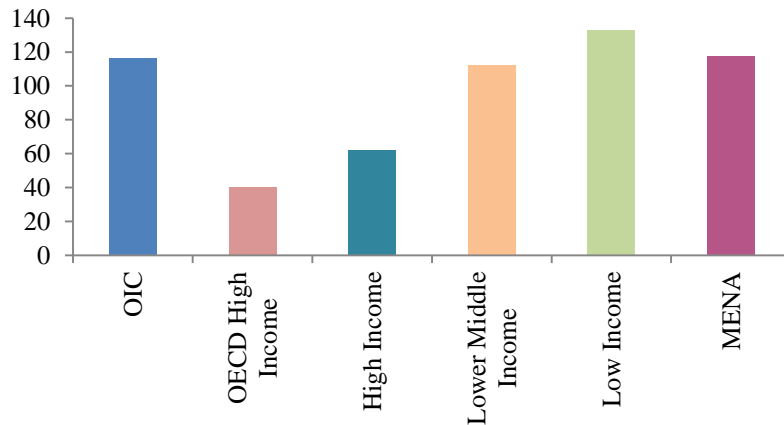
**Registering Property**



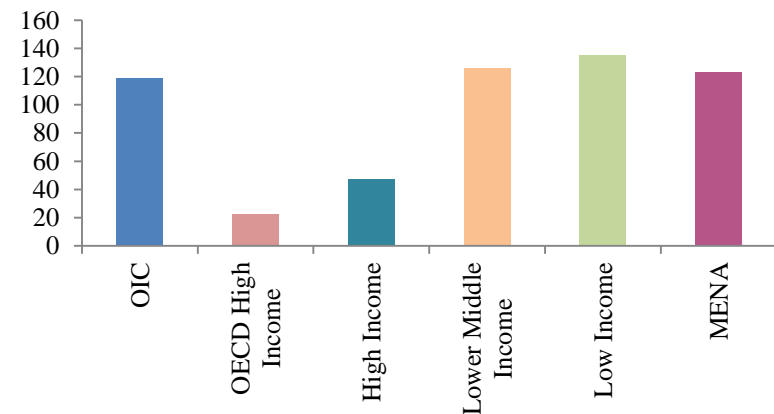
**Getting Credit**



**Enforcing Contracts**



**Resolving Insolvency**



## *How to mobilize Islamic finance as catalyst for SME Financing?*

- Strengthen financial sector, i.e. legal institutions, corporate governance, transparency, and business environment to prepare ground for **risk-sharing** products of Islamic finance.
- Develop national level policy and strategy on enabling environment and regulatory framework for Islamic finance for SME financing.
- Develop **risk-sharing** and **asset-based** products suitable for SME financing.
- Enhance financial literacy to educate investors and borrowers about risk-sharing products.



**Thank You**

# Disclaimers

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# Promoting Responsible Investing in OIC Countries

Presented at  
the OIC Member States' Stock Exchanges Forum 8<sup>th</sup> Meeting  
Istanbul, Turkey.  
November 11, 2014

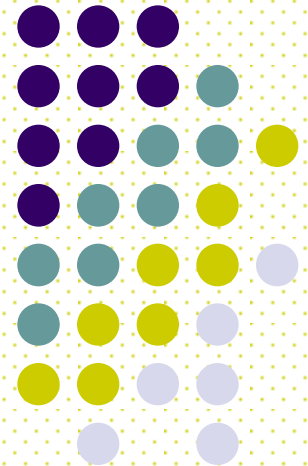
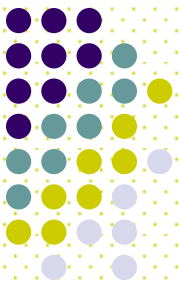
Jahangir Sultan  
***Bentley University***

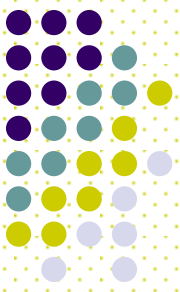
and

***Currency Arbitrage Management Group, LLC***

Marblehead, Massachusetts

*Confidential constituents list for all indices have been provided through a grant from the S&P Dow  
Jones Indices.*

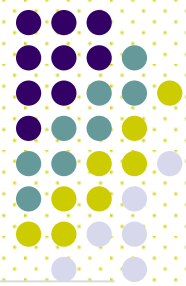




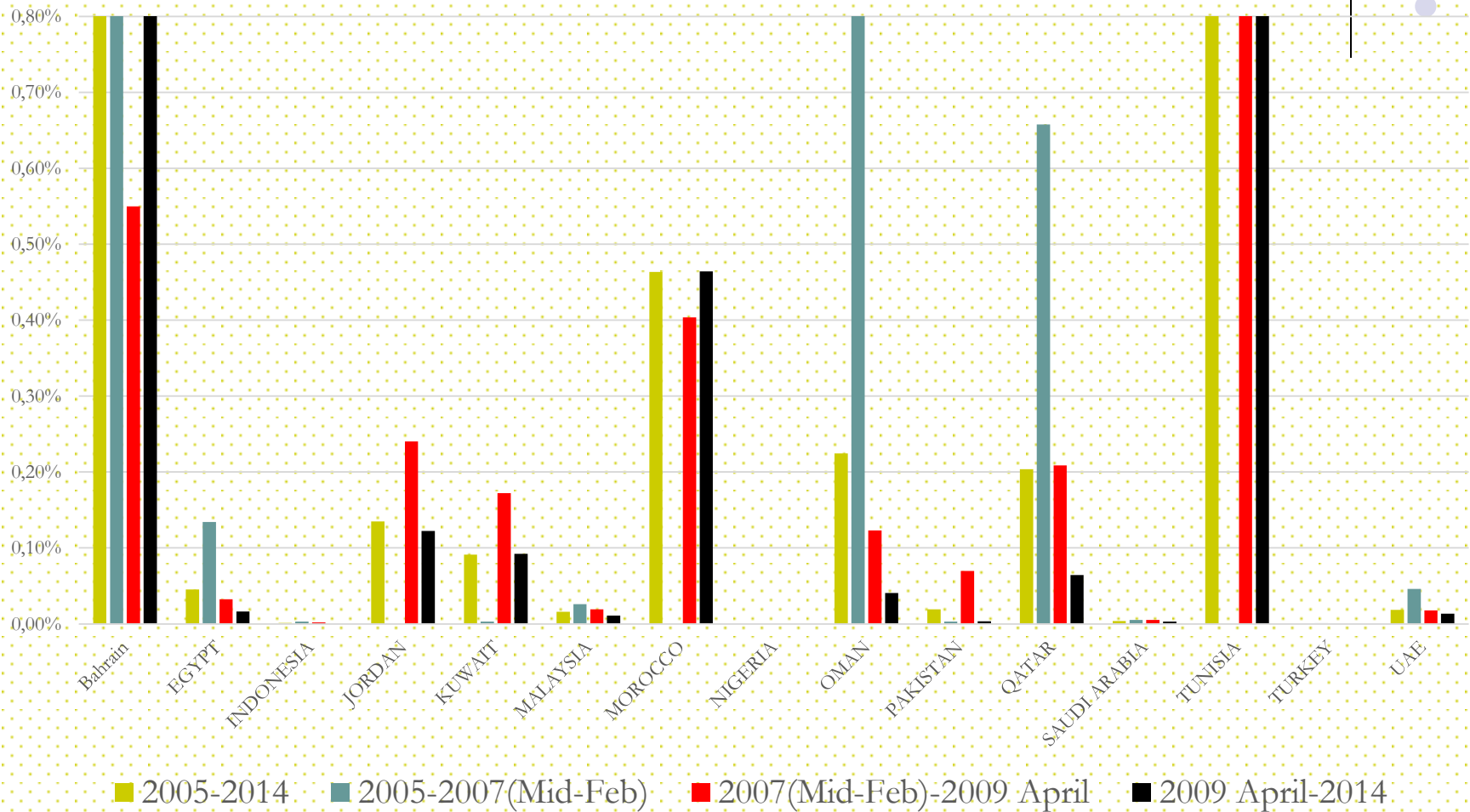
# Promoting OIC markets

- Attract foreign investment in OIC countries through increased product development
- Indirect investing through DRs and ETFs representing OIC capital markets
- Direct investing in OIC member countries

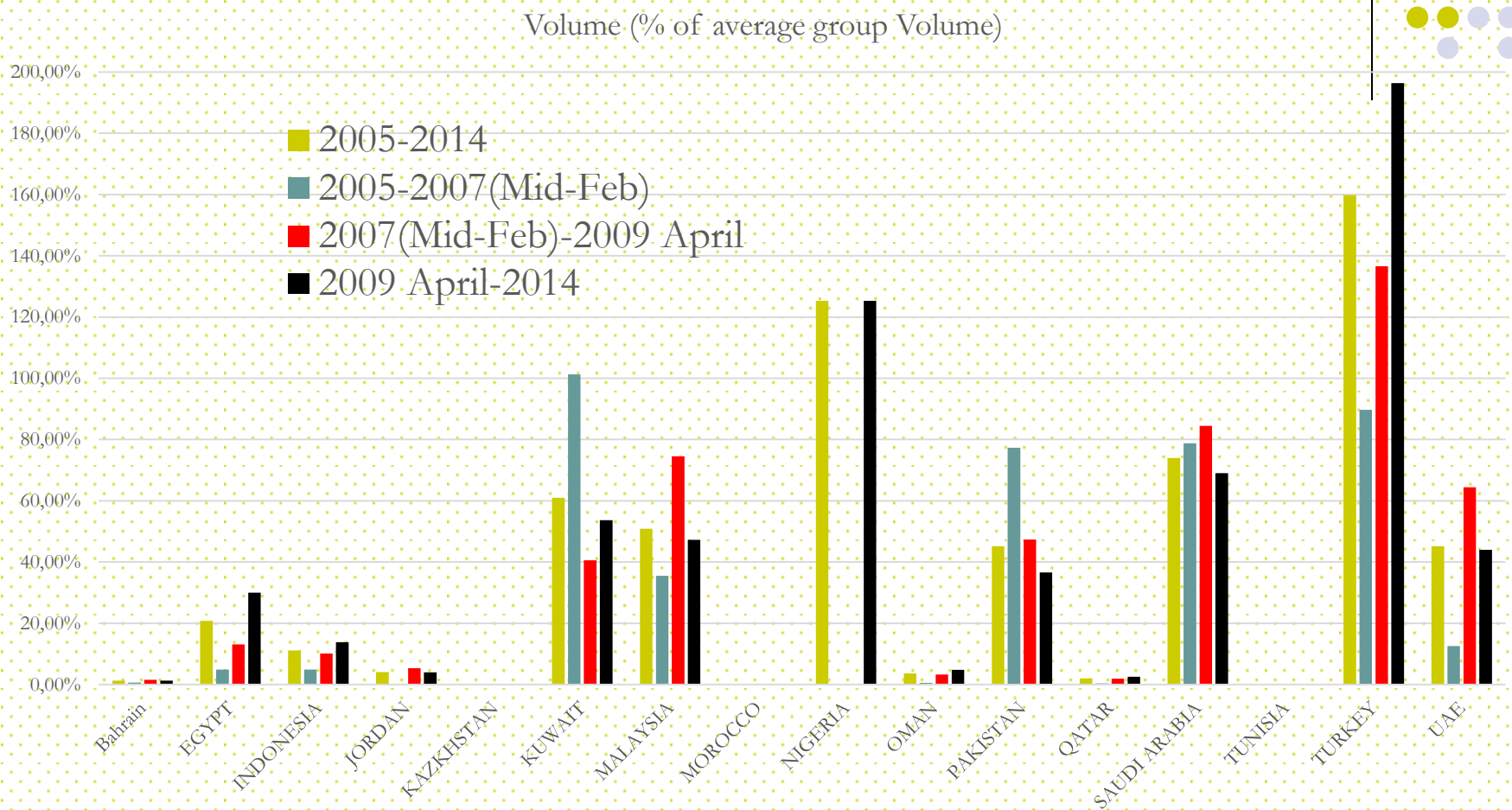
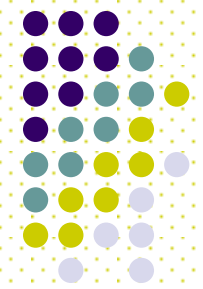
# Breadth, depth, and liquidity in OIC capital markets – Illiquidity ( $\text{Amihud} = (|R_t| / \$VOL)$ )



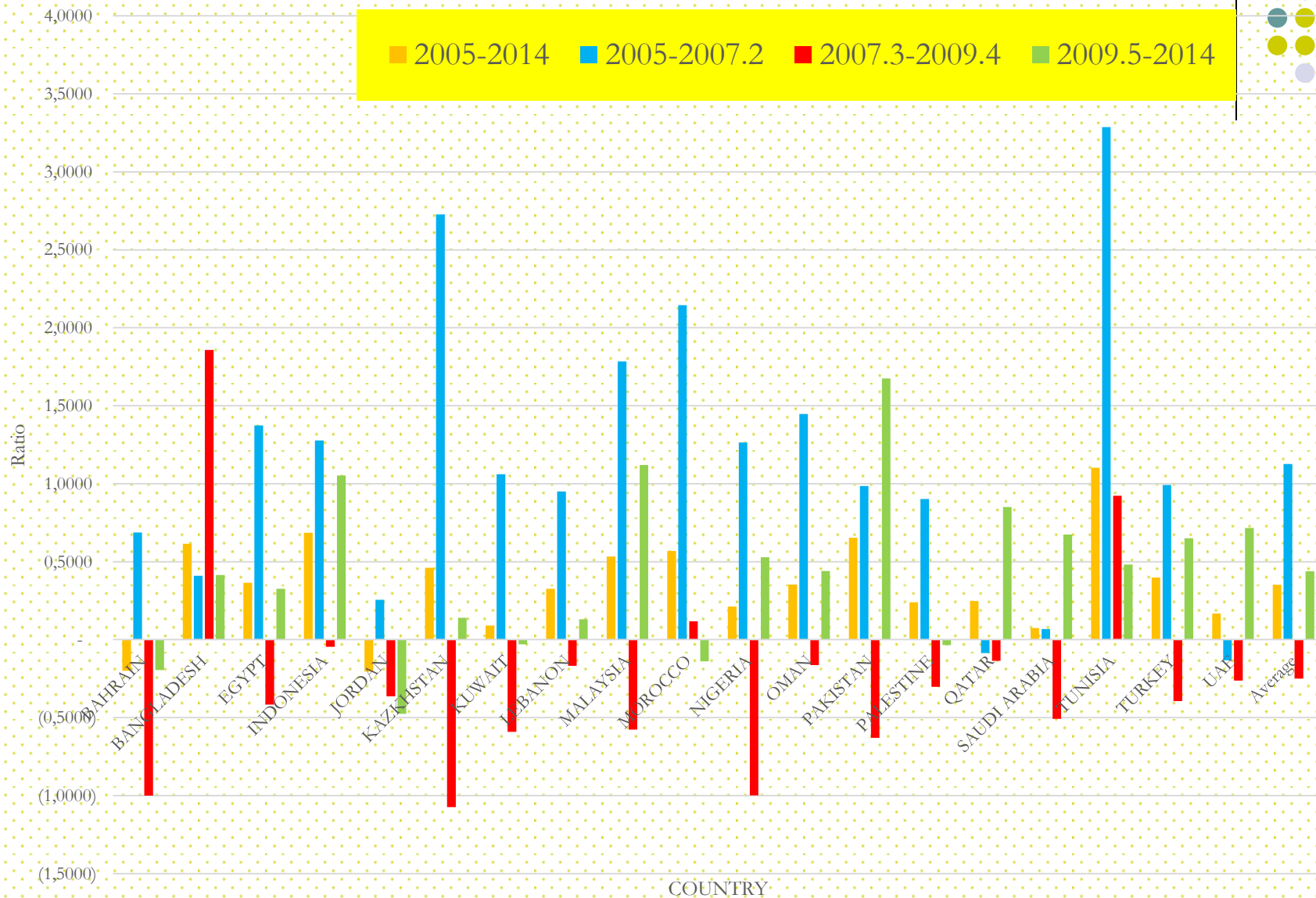
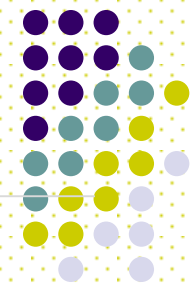
AMIHUD



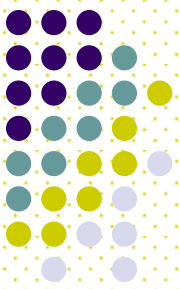
# Breadth, depth, and liquidity in OIC capital markets – Volume (scaled)



# OIC member countries --- risk adjusted returns

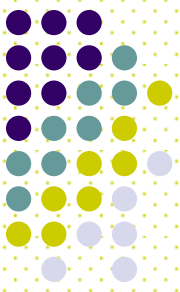


# Promoting responsible investing



- Big money moving to SRI; SRI universe is over \$4 trillion
- Pensions funds are now required to hold SC equities
- Why not demonstrate to the pension funds and other large institutional investors a new class of assets – SC compliant DRs and their ULs



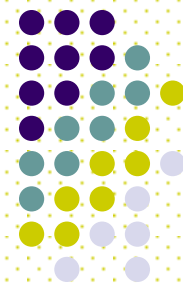


## Reverse benefits of DR listing abroad

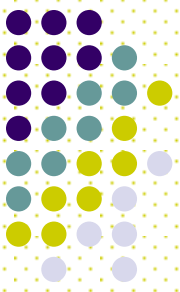
Most often cited reasons for listing DRs

- Improving liquidity and broadening the shareholder base
- Capitalizing on the product market reputation
- Fees
- Lower cost of capital
- External image/governance at home
- Price discovery

# Effective international diversification with DRs or underlying shares?



- Diversification using DRs possible for foreign investors.
- However, a portfolio of underlying stocks may offer better diversification benefits.
  - Direct investment leads to lower correlation because of investment frictions including transaction costs; illiquidity; higher bid-ask spread; etc.

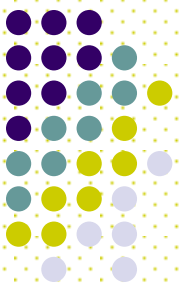


# International portfolio diversification – Islamic DRs or their underlying stocks

Compare international portfolio diversification with DRs and their underlying foreign stocks

– which is better?

- Four regimes
  - 2003-2014
  - Pre-crash (2003-Feb 2007)
  - Crash (2007 (March) – 2009 (April))
  - Recovery (2009 (May) – 2014 October)

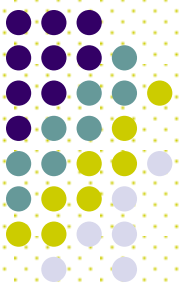


## Performance\* of Islamic DRs

<u>Regimes</u>	<u>DR portfolio rank</u>
• 2003-2014	1
• Pre-crisis	2
• Crisis	2
• Post-crisis	1

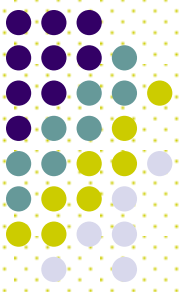
*\*Based on risk adjusted returns*

*\* Underlying portfolios perform similar*



# Role of Borsa Istanbul

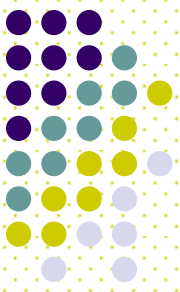
- Turkey is the leader among OIC countries regarding DRs/GDRs (70)
- Certainly, the success of these DRs hinges upon how the Borsa encourages the underlying firms to maintain active listing at home – avoid securities litigation
- Enforcement of securities laws; remove regulatory barriers; Improve disclosure and governance
- Encourage new IPOs among high quality firms



# Benefits to OIC exchanges

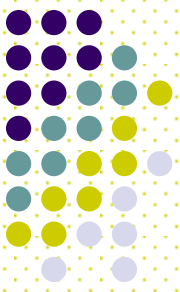
Improve efficiency by reducing market frictions:

- Conversion from DR to UL and UL to DRs
- Market based: investment restrictions on domestic and foreign investments; transaction costs; accounting and legal standards
- Trading based: liquidity



# Role of exchanges

- Monitor capital flows – encourage long-term
- Monitor capital flights through UL--> conversion
- Hot money
- Monitor short selling of stocks linked to DRs
- Prevent accounting frauds to prevent securities lawsuits



## Summary

- Possible to discriminate among various stock universes to identify disparate investment strategies
- Islamic investing allows both values and profit motivated investment strategies
- SC universe has unique appeal to those demanding SC compliance as well as profitability
- DRs provide international diversification





**BORSA**  
**İSTANBUL**



**BORSA  
İSTANBUL**

**NASDAQ OMX<sup>®</sup>**

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**VIOP**

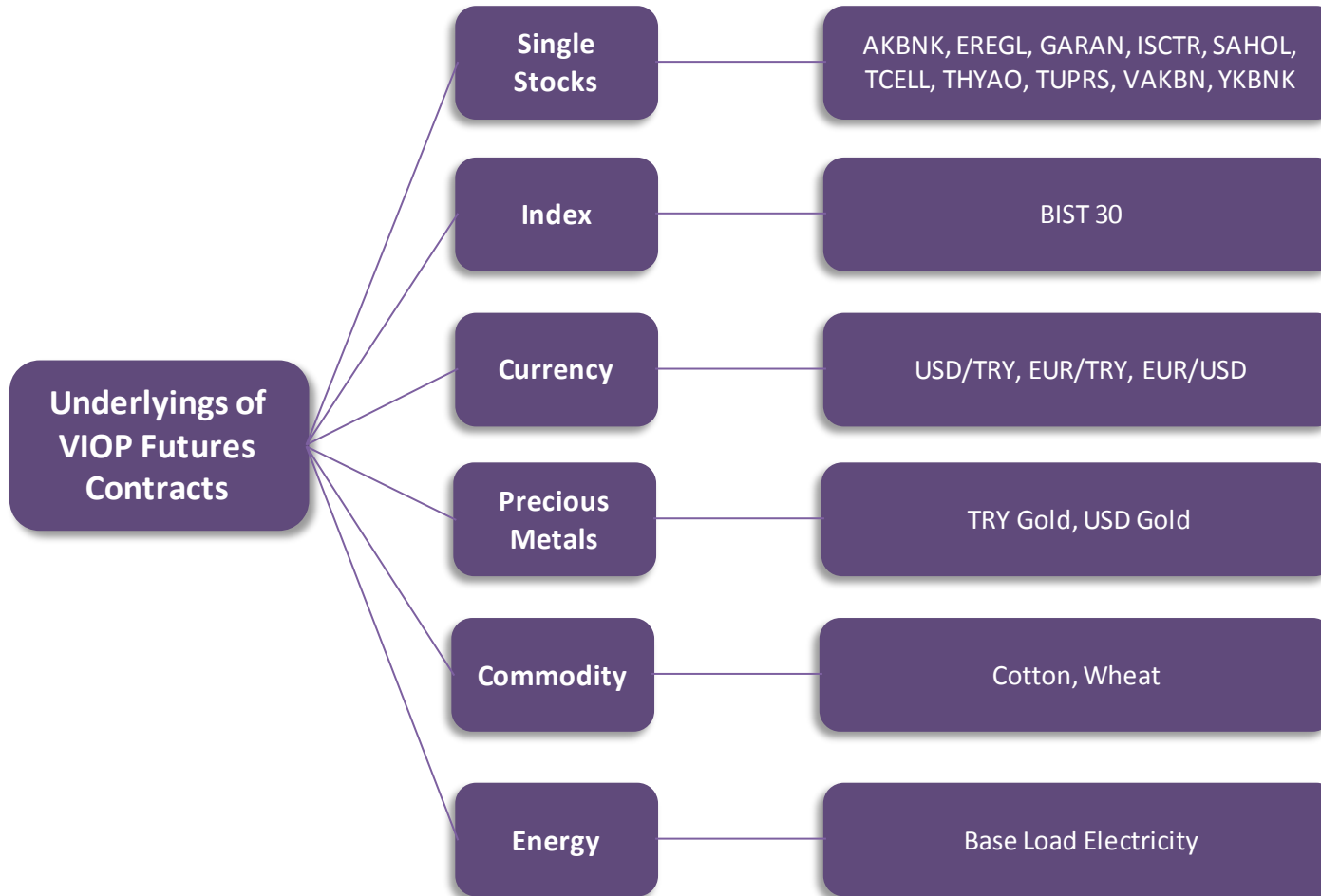
**DERIVATIVES MARKET**

# TURKISH DERIVATIVES MARKET

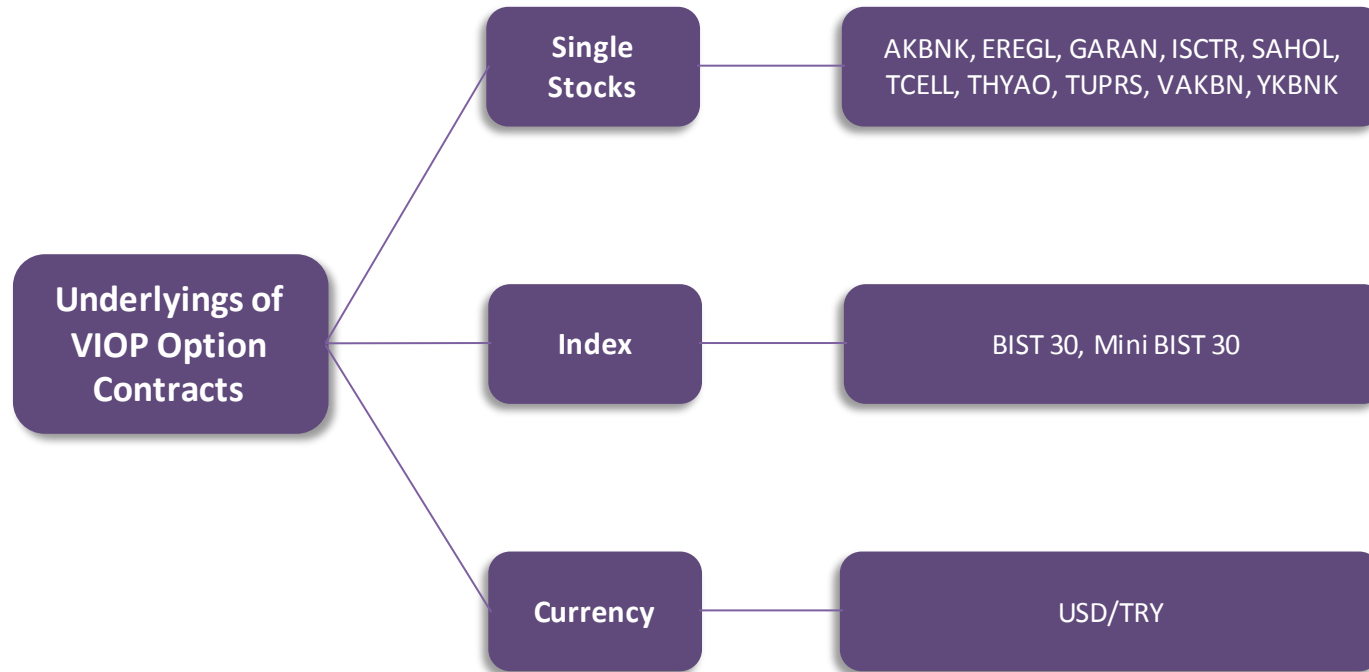
- Turkish Derivatives Exchange (TURKDEX) was launched on February 4<sup>th</sup>, 2005
- Borsa Istanbul merged with Turkish Derivatives Exchange (TURKDEX) on August 5<sup>th</sup>, 2013
- Today, Borsa Istanbul-VIOP is the sole derivatives market of the country, where you can trade equity, currency, commodity or energy contracts.
- Quick Facts about Borsa Istanbul-VIOP ;
  - ❖ 86 members (73 Brokerage Houses & 13 Banks)
  - ❖ **CFTC No Action Letter** for BIST-30 Index Futures
  - ❖ Approximately **1 billion USD** daily turnover
  - ❖ Content Sharing Agreement with Options Industry Council



# CONTRACTS TRADED AT VIOP



# CONTRACTS TRADED AT VIOP



# BIST 30 Index Futures

Contract Size	Underlying security is the 1/1000 of the index values. <b>Contract size is 100 underlying securities.</b>
Expiry Months	February, April, June, August, October and December (Contracts with three different expiration months nearest to the current month shall be traded concurrently. If December is not one of those three months, an extra contract with an expiration month of December shall be launched.)
Quotation	TRY
Trading Tick Size	0.025
Last Trading Day	Last business day of each contract month. In case domestic markets are closed for half day due to an official holiday, last trading day shall be the preceding business day
Settlement	Cash settlement
Trading Hours	09:10-17:45 (break between 12:30-13:55) (07:10-15:45 London)
Clearing	Takasbank
Settlement Period	T+1

# BIST 30 Index Options

Contract Size	Underlying security is the 1/1000 of the index values. <b>Contract size is 100 underlying securities.</b>
Expiry Months	February, April, June, August, October and December (Contracts with three different expiration months nearest to the current month shall be traded concurrently. If December is not one of those three months, an extra contract with an expiration month of December shall be launched.)
Quotation	TRY
Trading Tick Size	0.01
Exercise	European-style; an option is exercised only on the expiry date.
Last Trading Day	Last business day of each contract month. In case domestic markets are closed for half day due to an official holiday, last trading day shall be the preceding business day
Settlement	Cash settlement
Trading Hours	09:10-17:45 (break between 12:30-13:55) (07:10-15:45 London)
Clearing	Takasbank
Settlement Period	T+1

# USDTRY Options

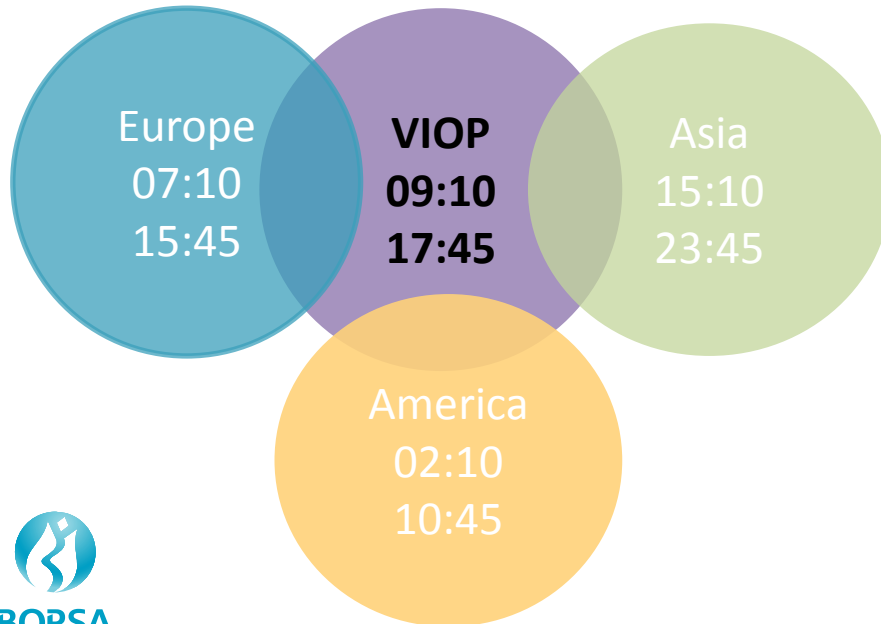
Contract Size	1,000 USD.
Expiry Months	All calendar months (2 consecutive months - the current contract month and the next calendar month shall be concurrently traded)
Quotation	Prices shall be entered for 1,000 USD as the premium value in terms of Turkish Lira significant to one decimal. (Example: 20.1, 20.2 etc.)
Trading Tick Size	0.1
Exercise	European-style; an option is exercised only on the expiry date.
Last Trading Day	Last business day of each contract month. In case domestic markets are closed for half day due to an official holiday, last trading day shall be the preceding business day
Settlement	Cash settlement
Trading Hours	Continuous trading between 09:10-17:45 (07:10-15:45 London)
Clearing	Takasbank
Settlement Period	T+1





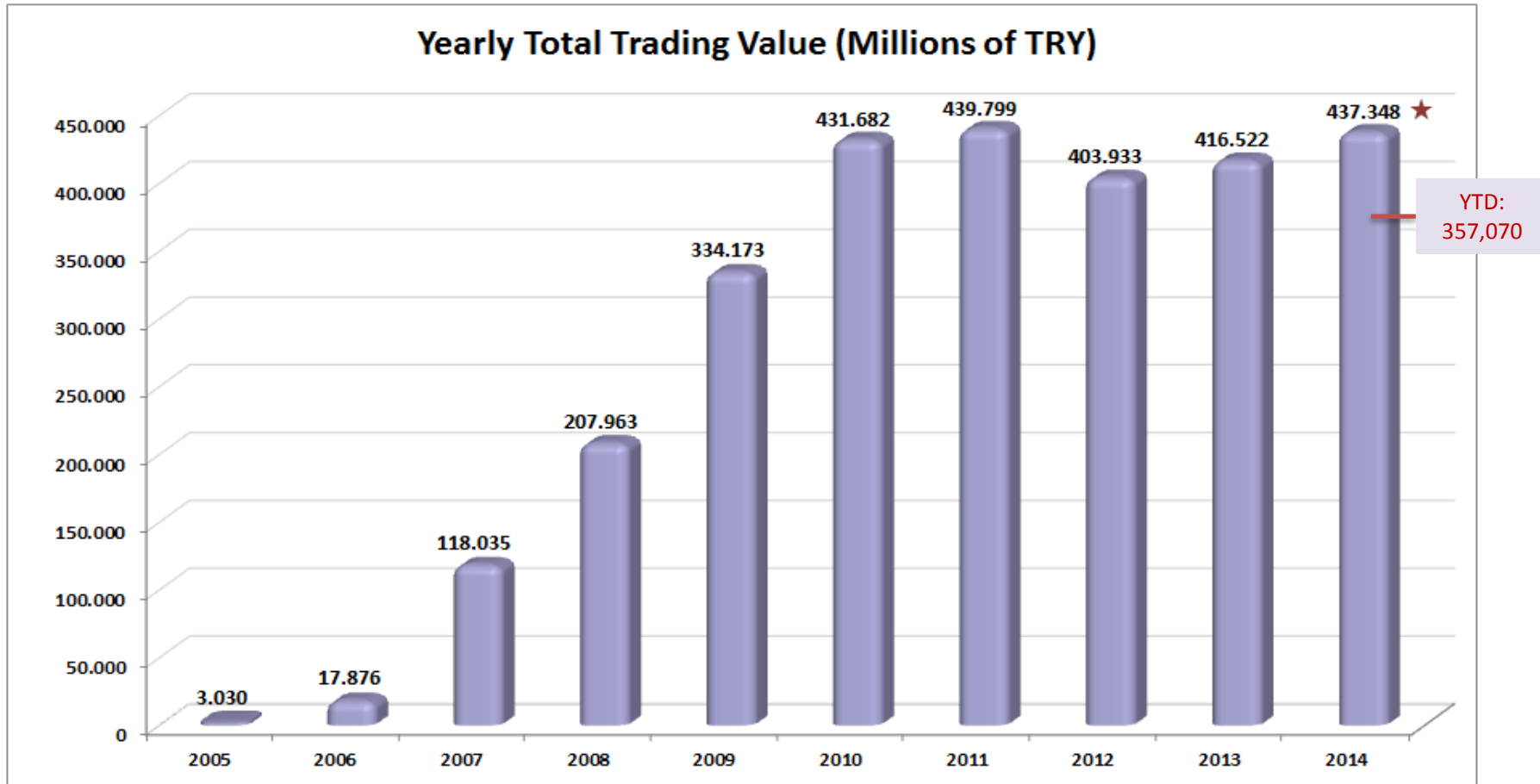
# TRADING HOURS

	9:10am (07:10am London Time)		12:30pm (10:30am London Time)	13:55pm (11:55am London Time)		17:40pm (15:40pm London Time)	17:45pm (15:45pm London Time)
	↓		↓	↓		↓	↓
Single Stock Futures & Options	Non Trading Period	Normal Session	Session Break	Normal Session			
Index Futures & Options	Non Trading Period	Normal Session	Session Break	Normal Session			
Other Contracts	Non Trading Period	Normal Session					



- ❖ Continuous trading between **09:10-17:40** (for Single Stock Futures and Options), and **09:10-17:45** (for other contracts)
- ❖ Session Break at **12:30-13:55** (for Single Stock and Index contracts)

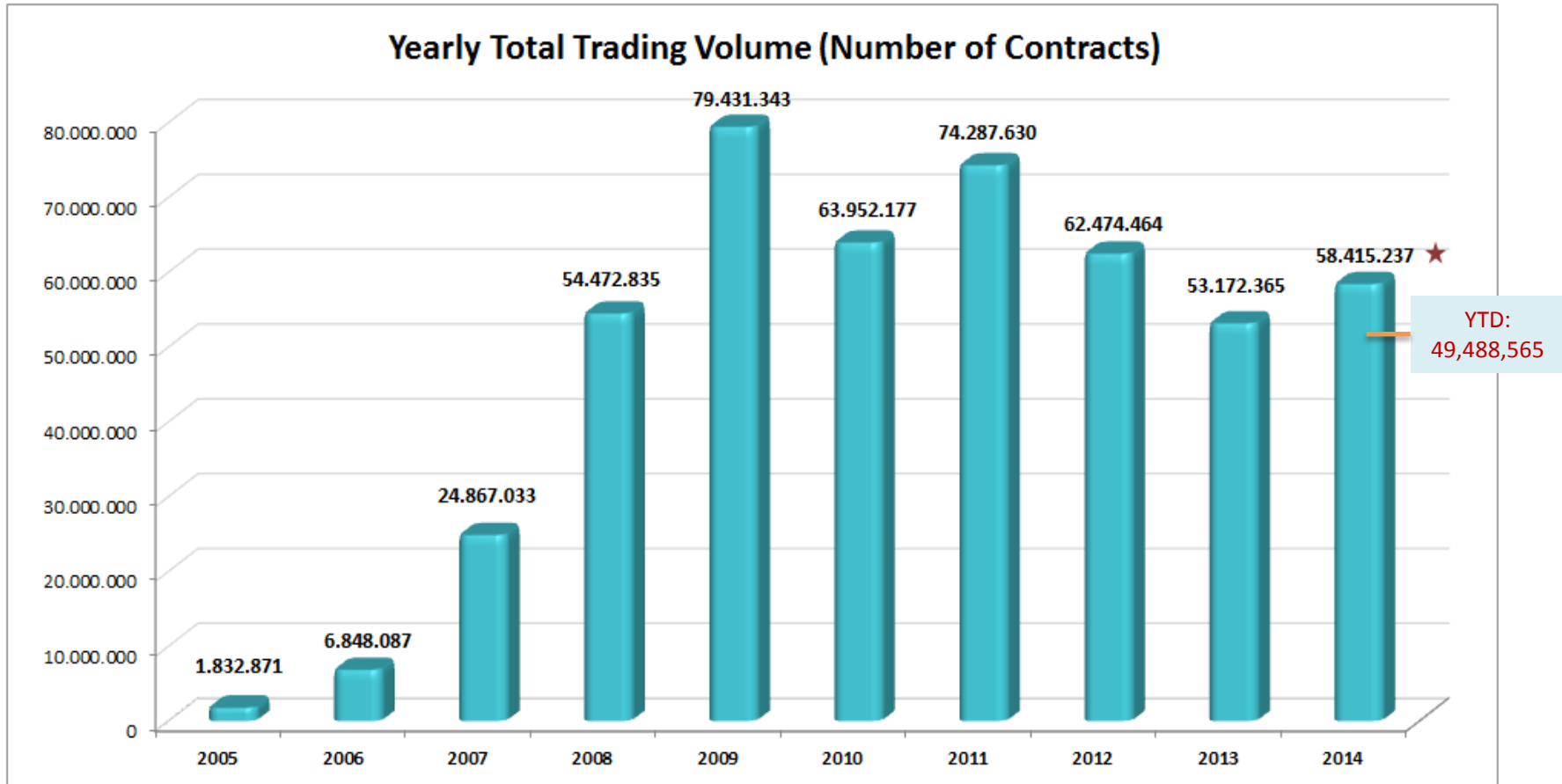
# MARKET STATISTICS



★ Expected 2014 trading value. YTD includes data until 31st October.



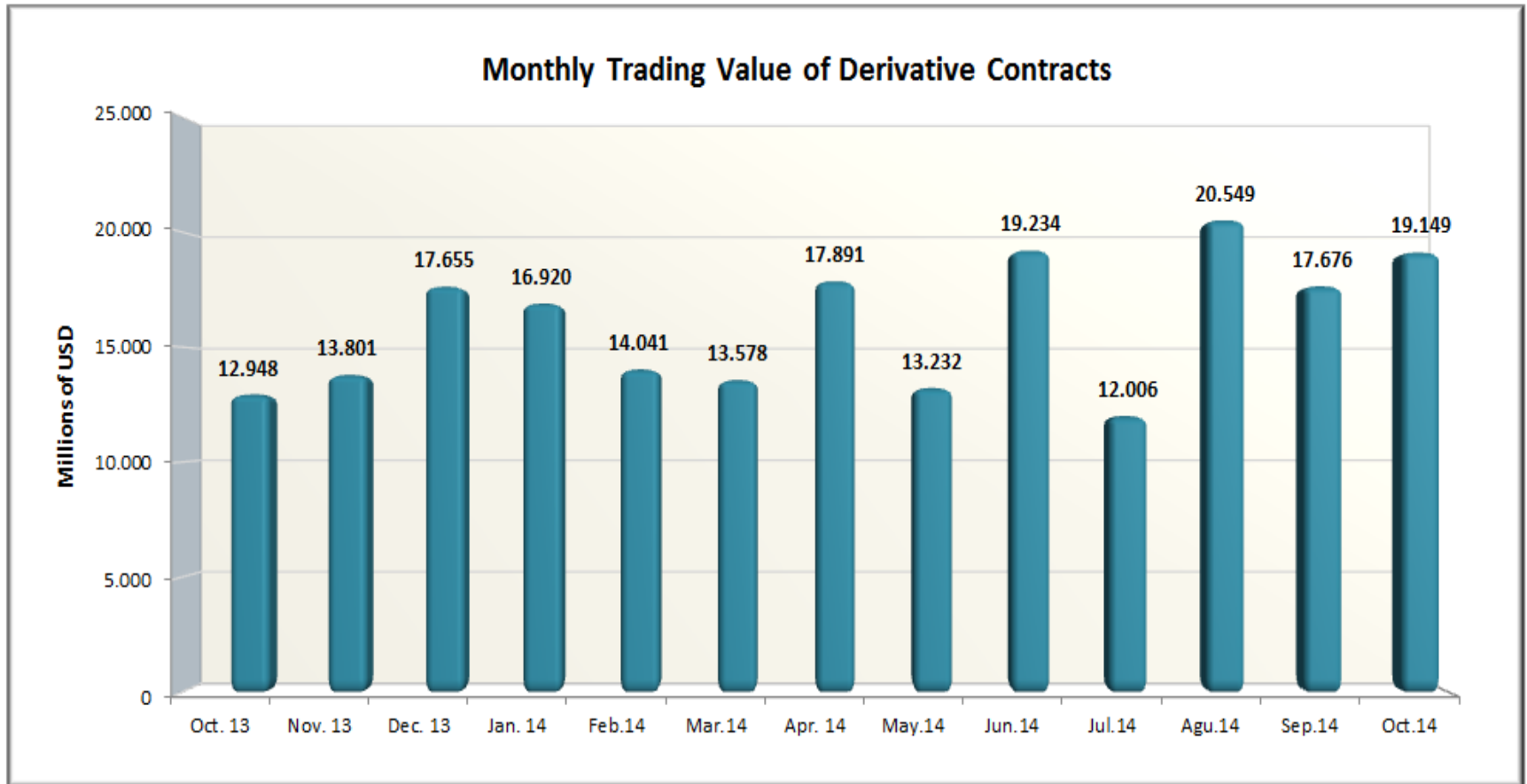
# MARKET STATISTICS



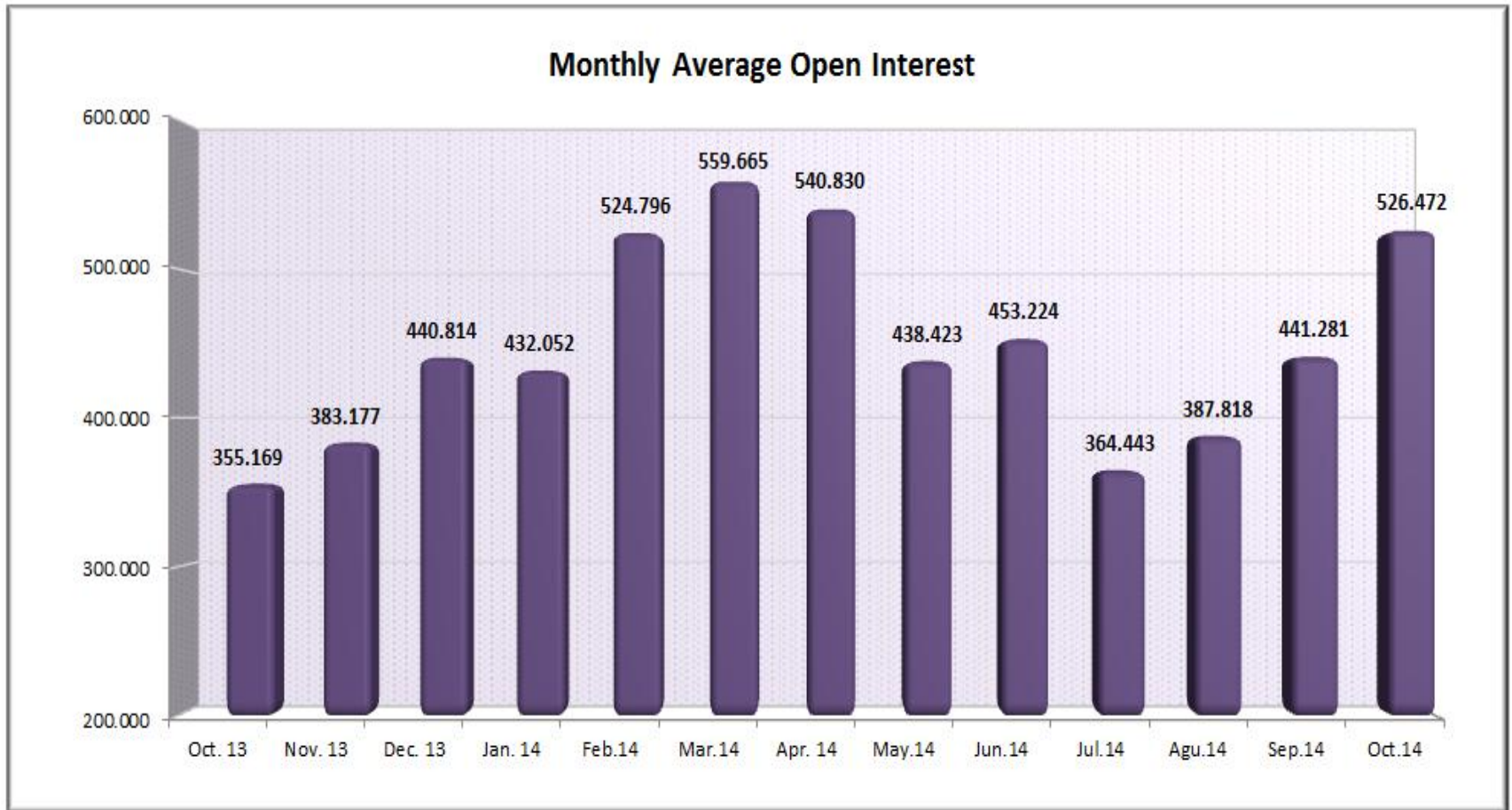
★ Expected 2014 trading value. YTD includes data until 31st October.



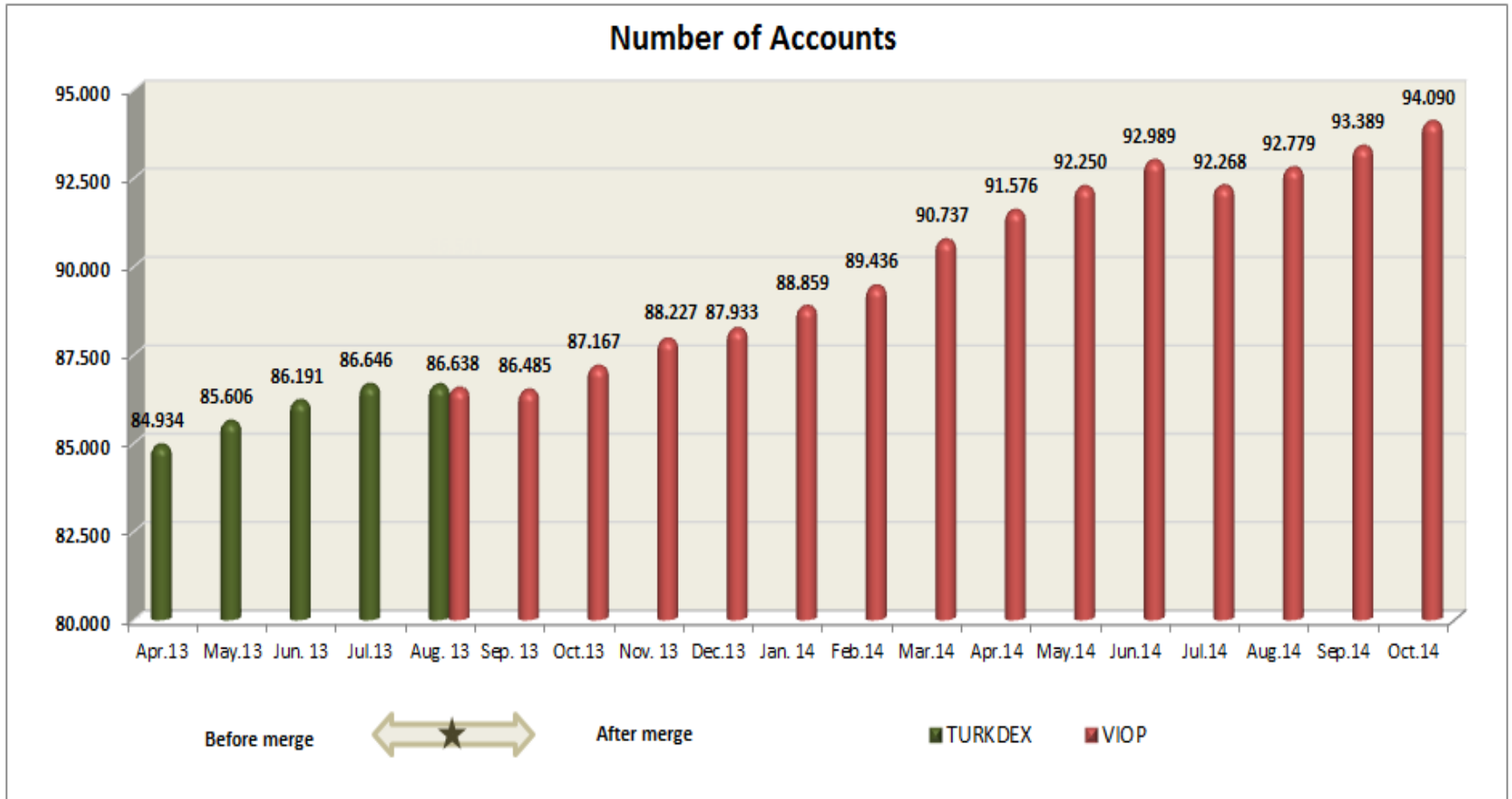
# MARKET STATISTICS



# MARKET STATISTICS

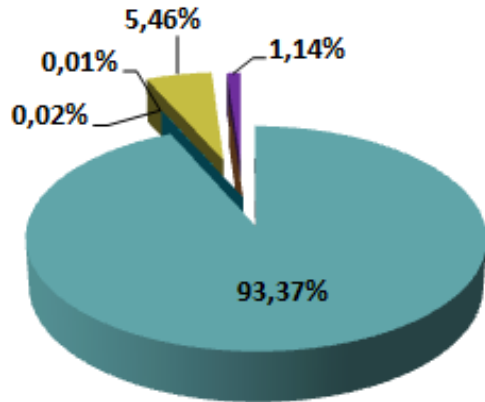


# MARKET STATISTICS



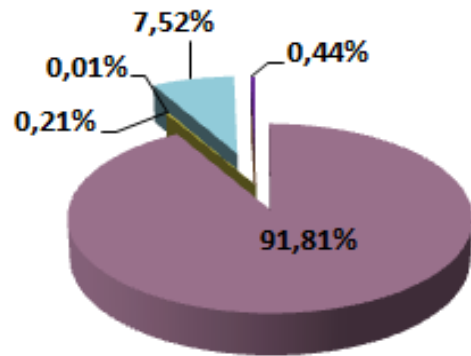
# MARKET STATISTICS

## Derivatives Market Trading Value Breakdown (by instrument type)



**2013**

- BIST30 Futures
- BIST30 Options
- Single Stock Futures
- Single Stock Options
- Currency Futures
- Currency Options
- Precious Metals Futures



**2014\***

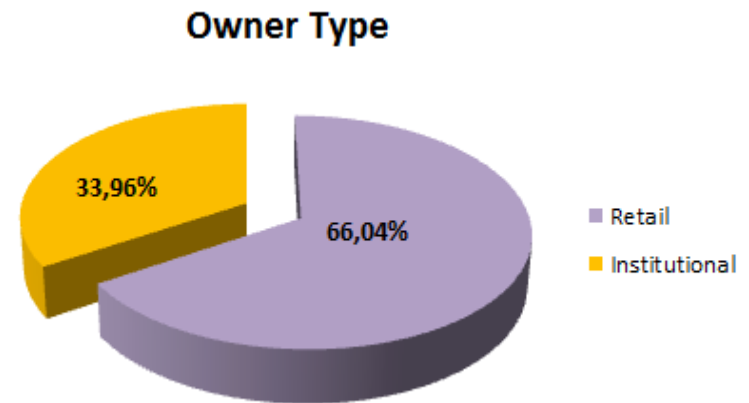
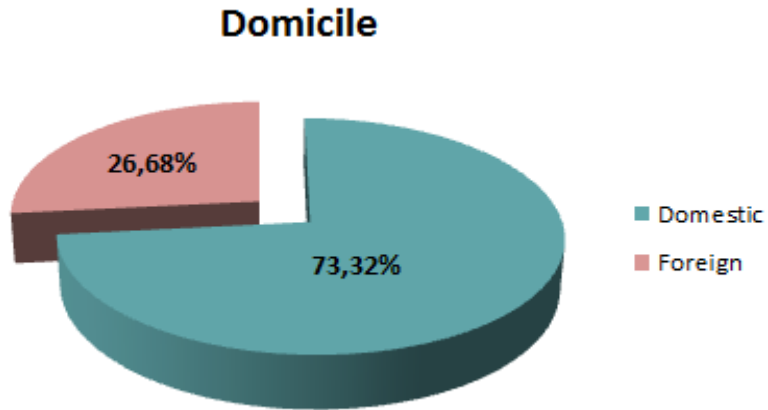
- BIST30 Futures
- BIST30 Options
- Single Stock Futures
- Single Stock Options
- Currency Futures
- Currency Options
- Precious Metals Futures
- Energy Futures

*\*2014 includes data until October 31st.*



# MARKET STATISTICS

## Derivatives Market Trading Value Breakdown (2014\*)



*\*2014 includes data until October 31st.*



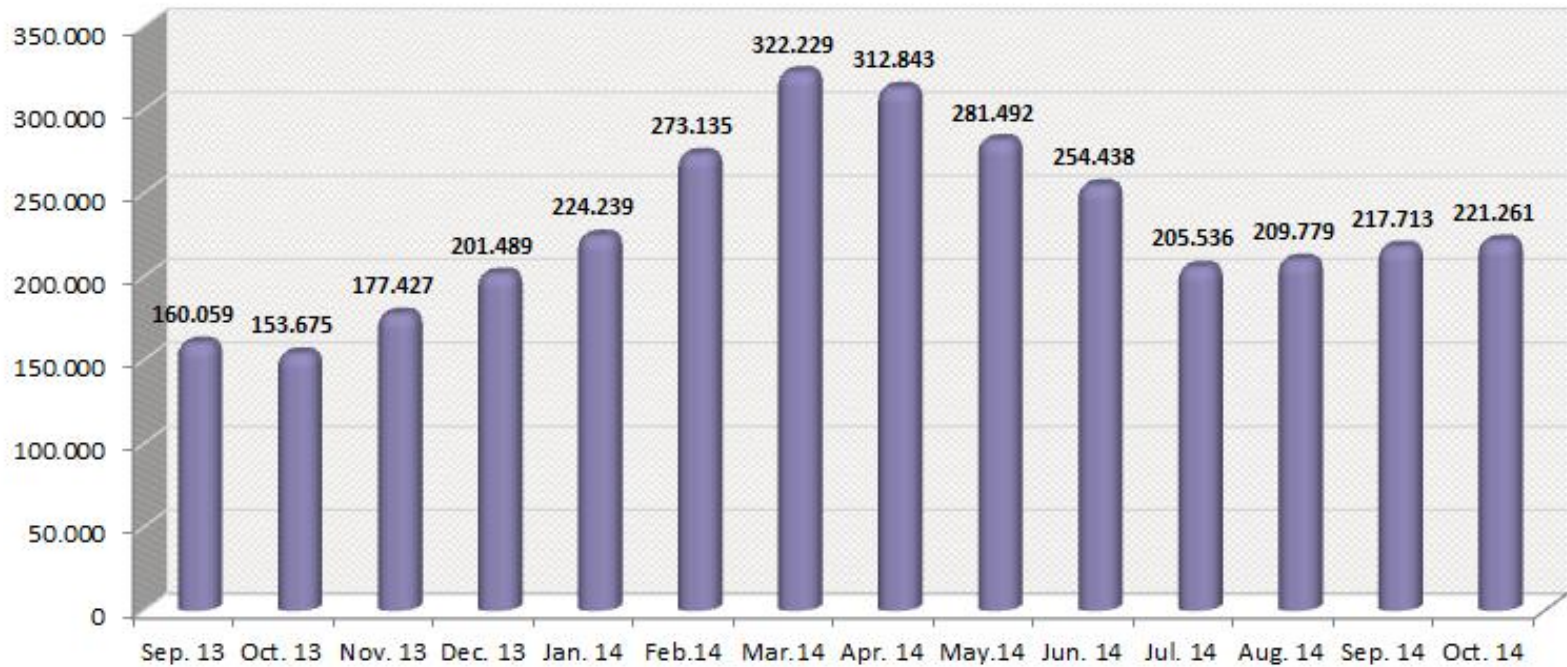
# MARKET STATISTICS

**Monthly Trading Value of BIST-30 Index Futures (millions of USD)**



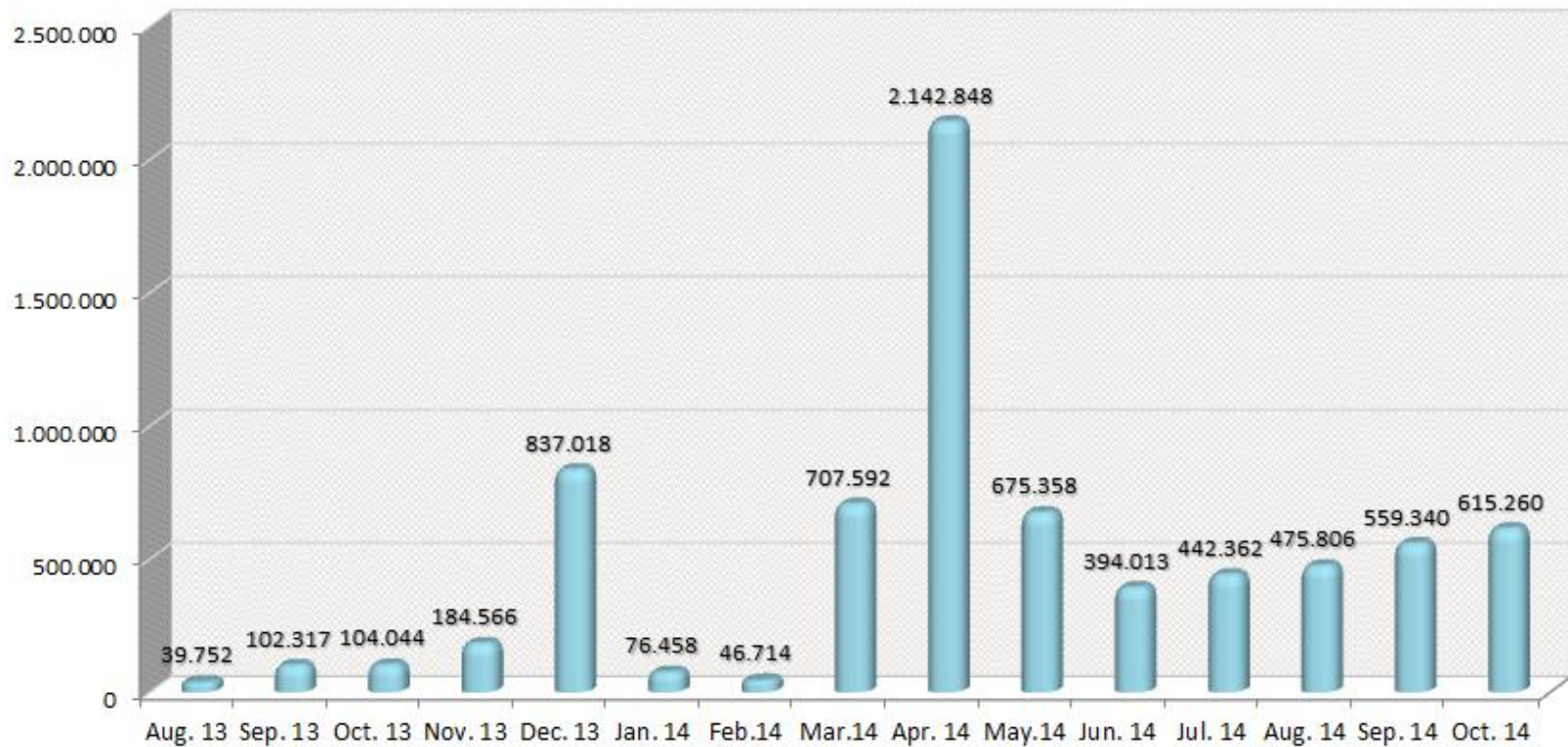
# MARKET STATISTICS

## Daily Average Open Interest of BIST 30 Index Futures



# MARKET STATISTICS

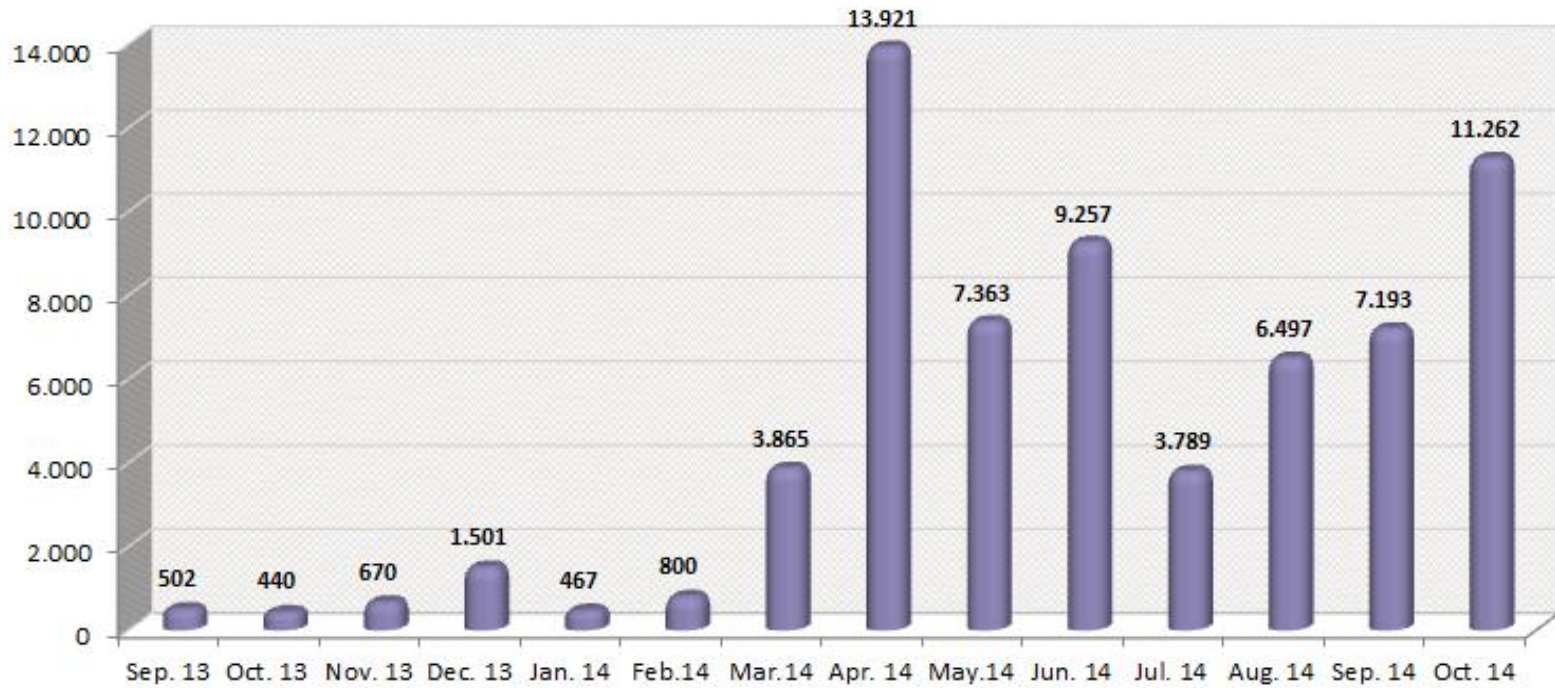
## Monthly Trading Value of BIST-30 Index Options (USD)





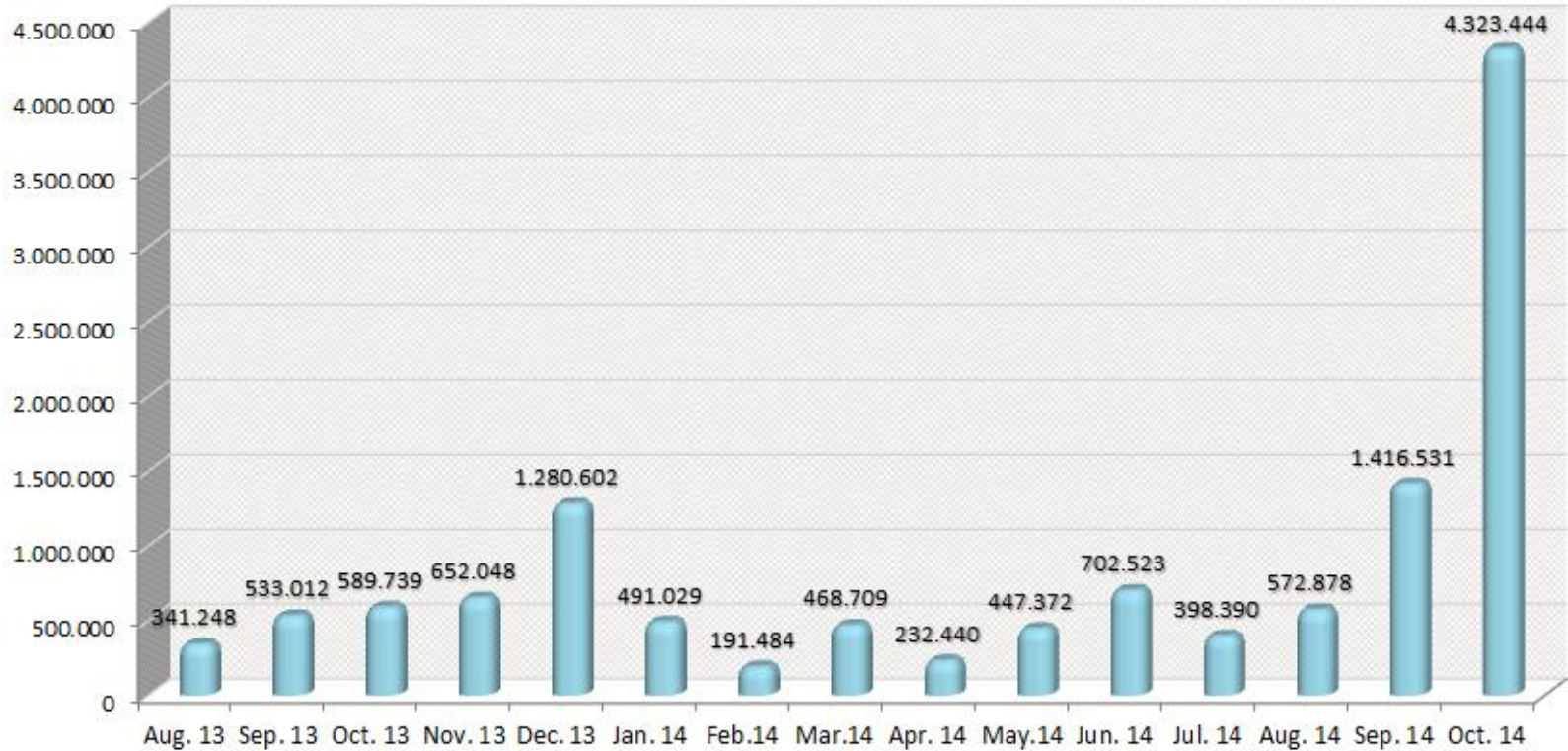
# MARKET STATISTICS

## Daily Average Open Interest of BIST 30 Index Options



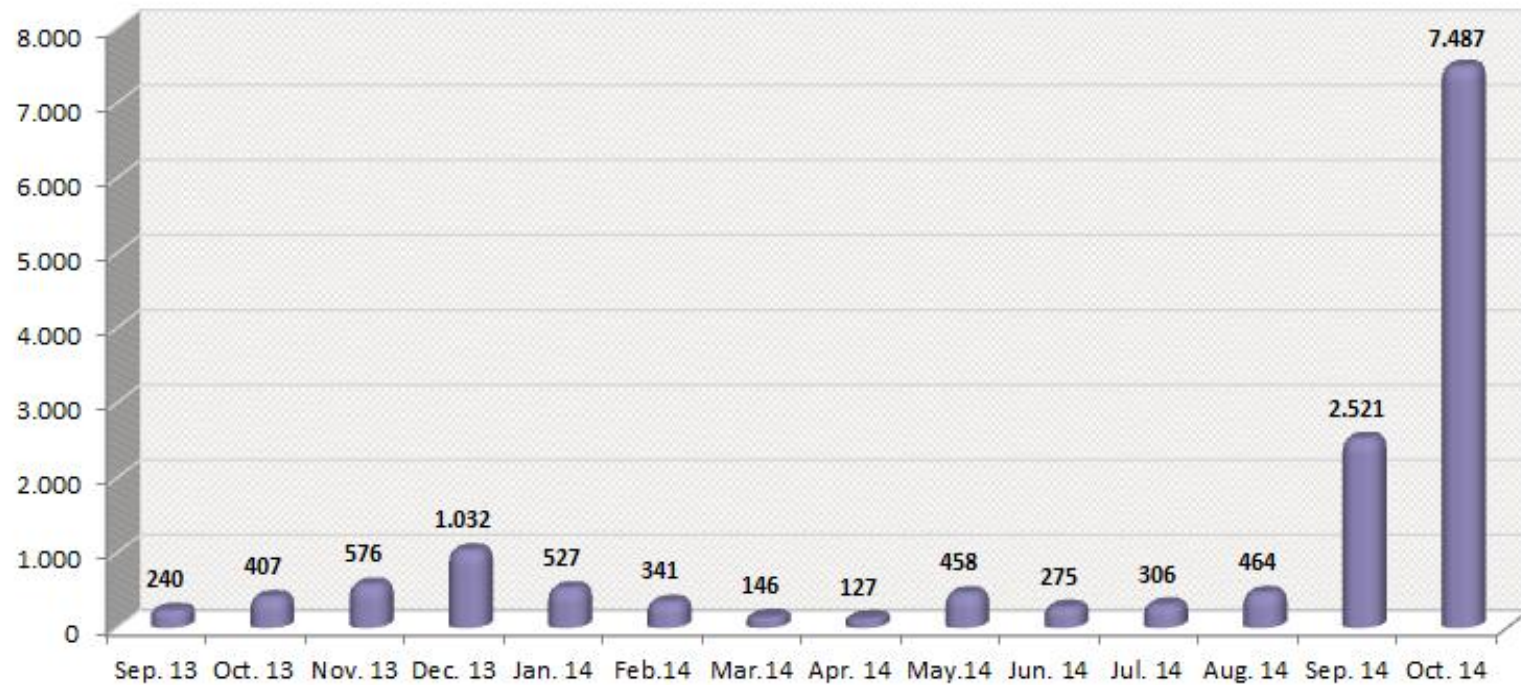
# MARKET STATISTICS

## Monthly Trading Value of Single Stock Futures (USD)



# MARKET STATISTICS

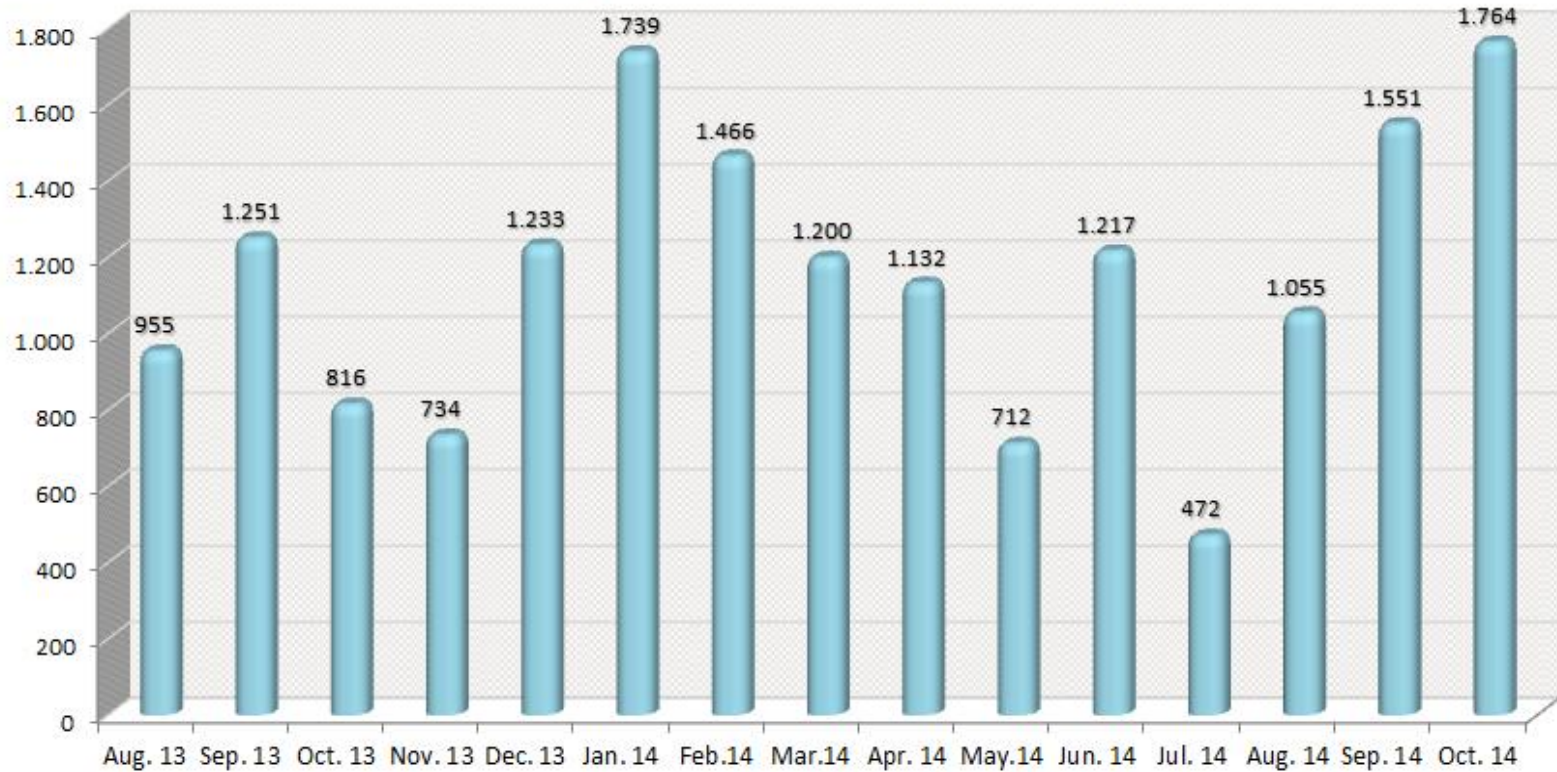
## Daily Average Open Interest of Single Stock Futures





# MARKET STATISTICS

**Monthly Trading Value of Currency Futures (millions of USD)**



# MARKET STATISTICS

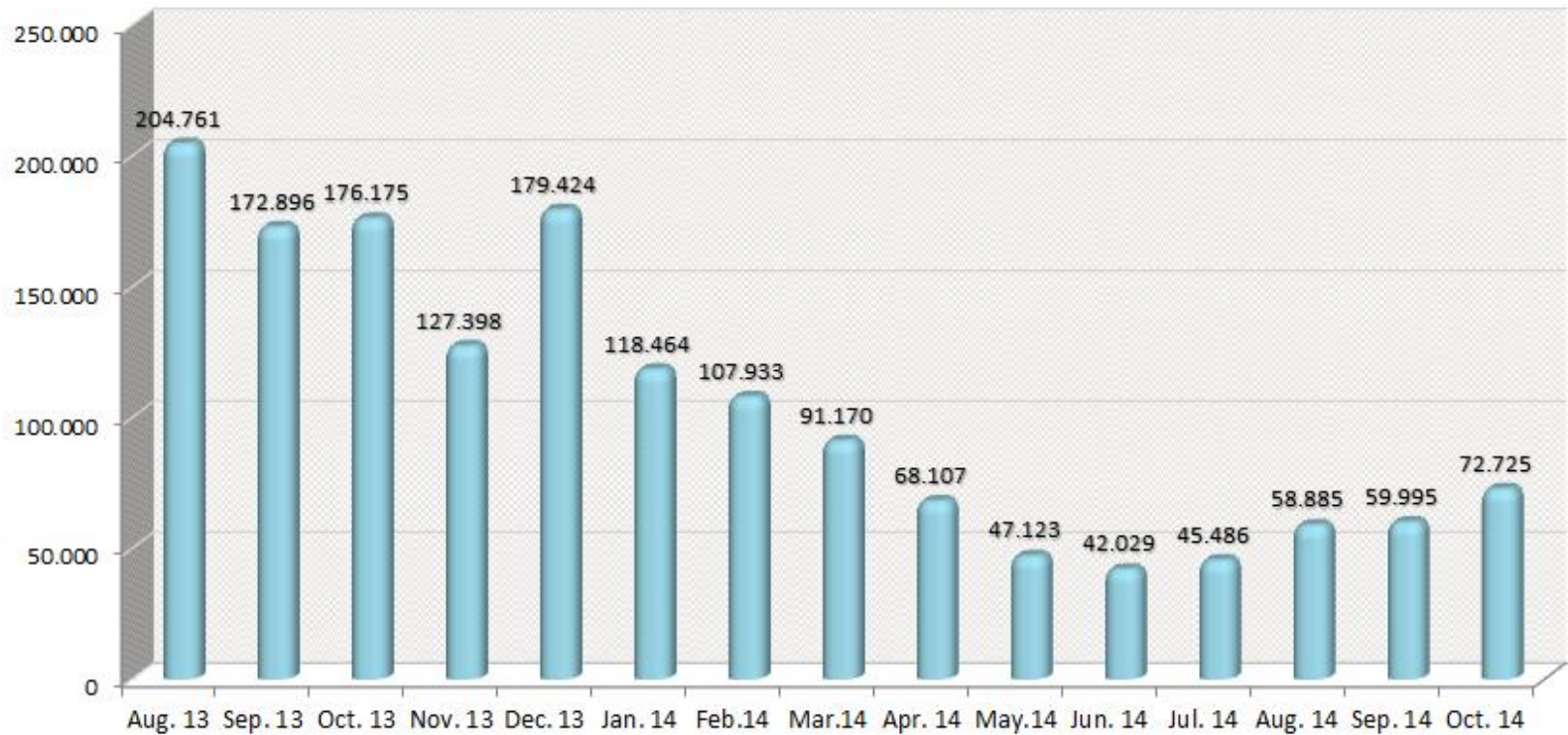
## Daily Average Open Interest of Currency Futures





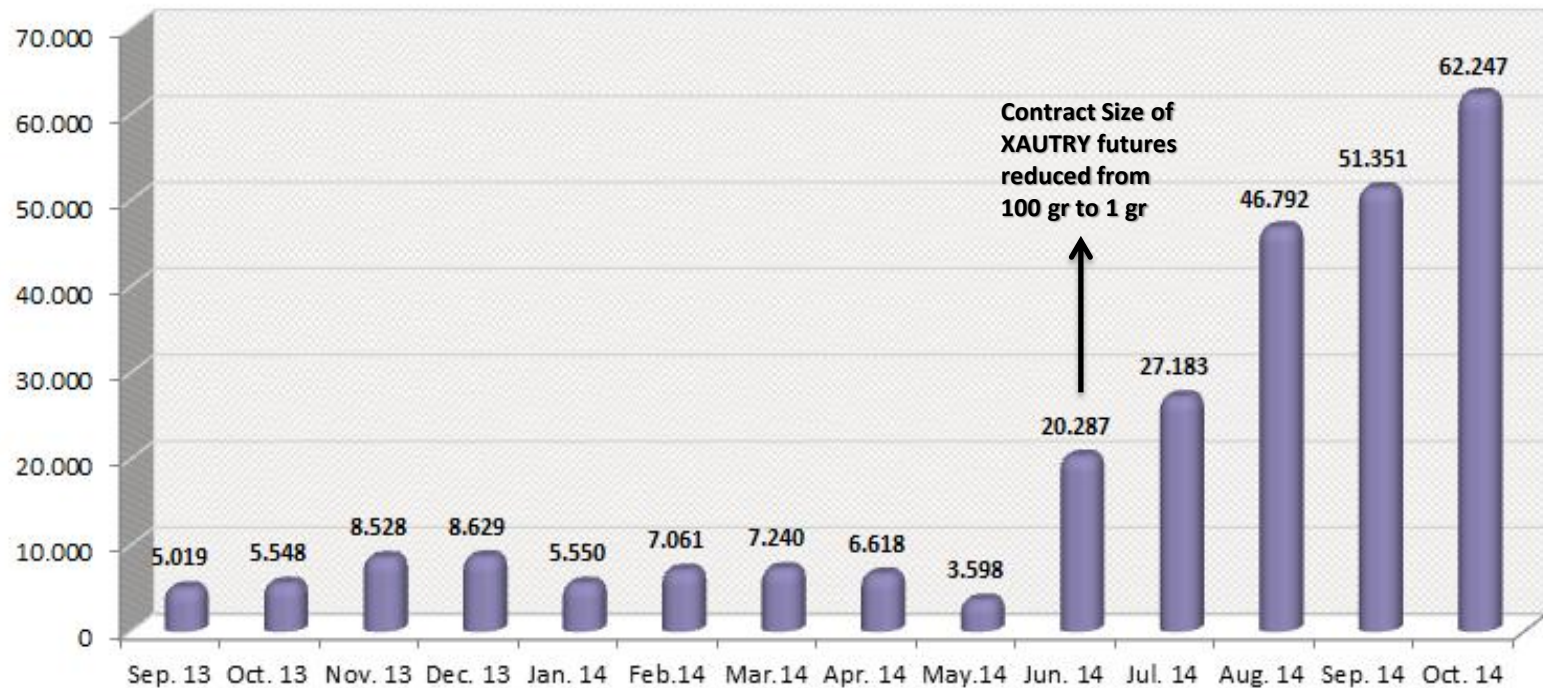
# MARKET STATISTICS

**Monthly Trading Value of Precious Metal Futures  
(thousands of USD)**



# MARKET STATISTICS

## Daily Average Open Interest of Precious Metal Futures



- Takasbank started providing CCP services for the Borsa Istanbul Derivatives Market as of March 03, 2014.
- 70 million USD gurantee fund with Takasbank. Value of collaterals held at Takasbank nearly 792 million USD as of October 2014.
- In order to fulfill its commitments, Takasbank also reserves 28 million USD (TRY 61 million).

## **Post Trade Risk Management**

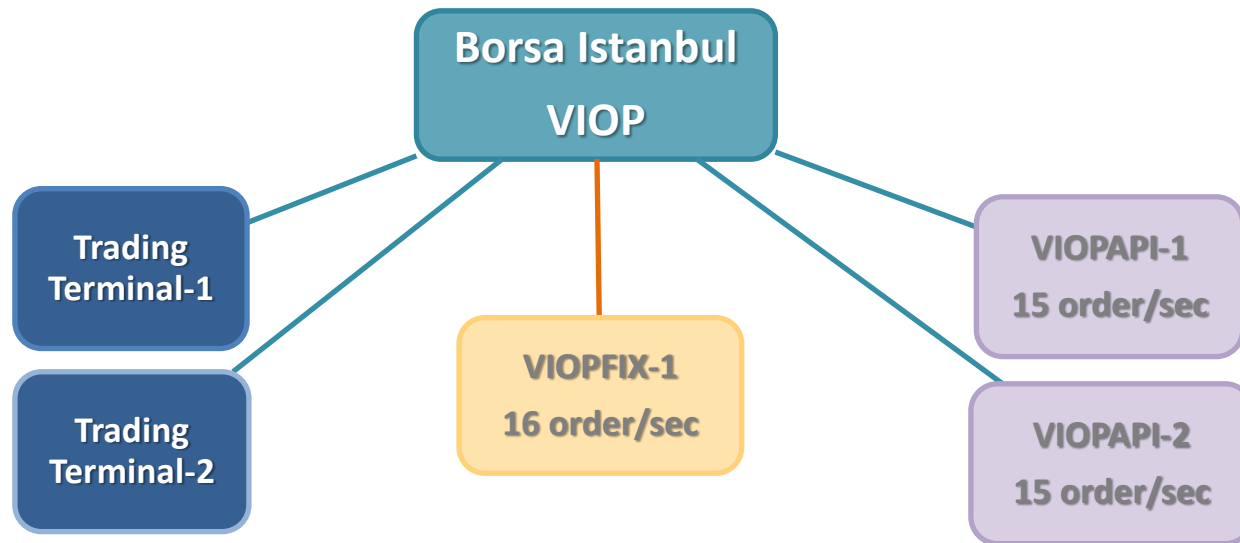
- ❖ Portfolio Based Margining (SPAN)

## **Pre-Trade Risk Management**

- ❖ Pre-Order Margin Controls (For Risky Accounts)

# ORDER TRANSMISSION

- FIX Protocol, which is widely used in world securities exchanges, alternative trading platforms and financial markets, was adopted in Borsa Istanbul Derivatives Market as of April 4, 2014.
- Each Member has 2 API connection, 1 FIX connection and 2 Trading Terminal for connecting Derivatives Market (VIOP).



# VENDOR CODES

## ➤ Bloomberg

- ❖ Index Futures- **XU030 Index CT**
- ❖ Single Stock Futures- **SFUT TI**
- ❖ Currency Futures- **A1A Curncy CT (A2A, B2A)**
- ❖ Gold Futures - **XLA Comdty (XLTA)**
- ❖ Index Options -**XU030X Index OMON**
- ❖ Single Stock Options- **GARAN TI Equity OMON,...**

↑ 97614.25 -71.01  
 01 d 0 97527.20 H 98112.44 L 97294.15 Prev 97685.26  
 Index 1) Settings 2) Actions  
 Futures Sort By Expiration  
 FUTURES 7) IST (CEM) Display Quoted Val. Session  
 Prices Contracts 3 Aggr Vol 180,435 Aggr Open Int 261,931  
 Lot Size 1000  

Time	Last Traded Price	Set	Time	Bid	Ask	Open Int	Volume	Yest	Settle	High	Low
04	12:01							97685.26	112.44	7294	
12:01	97.650	-0.375	12:01	97.625	97.650	128537	104289	98.025	98.400	97	
12:01	98.525	-0.500	12:01	98.525	98.550	132245	76020	99.025	99.100	98	
12:01	99.200	-0.525	12:01	99.100	99.600	1148	128	99.725	99.850	99	

XU030X

↓ 97.62

-0.07

At 12:03 d

0 97.53

H 98.11

L 97.29

Prev 97.69

XU030X Index

99 Templates

90 Actions

97 Expiry

Option Monitor

Option Monitor

91) News (CN)

BIST NATIONAL

30 Scaled

97.62

-0.07

-0.0699%

/

Hi 98.11

Lo 97.29

Volm

HV 21.56

Calc Mode

Center

97.62

Strikes

5

Exch

IstanbulSEFut

92) Earnings Calendar(ACDR)

8) Center Strike

87 Calls/Puts

83 Calls

84 Puts

85 Term Structure

87 Moneyless

Calls

Strike

Puts

Ticker

Bid

Ask

Last

IVM

DM

Volm

OInt

31 Oct 14 (1d); CSize 100; R 10.76

5

31 Oct 14 (1d); CSize 100; R 10.76

1) XU030X 10 C94

3.76y

1.00

560

94

16) XU030X 10 P94

.78

.01y

95.99

-.24

285

2) XU030X 10 C96

1.88y

1.00

710

96

17) XU030X 10 P96

.02

.89

.12y

48.17

-.27

82

3) XU030X 10 C98

.56y 7.47

.21

305

98

18) XU030X 10 P98

.25

.80y

-1.00

13

4) XU030X 10 C100

.01

.07y 20.47

.02

106

100

19) XU030X 10 P100

2.32y

10

5) XU030X 10 C102

.01y

387

102

20) XU030X 10 P102

4.25y

31 Dec 14 (62d); CSize 100; R 10.35

5

31 Dec 14 (62d); CSize 100; R 10.35

6) XU030X 12 C94

6.24y

94

21) XU030X 12 P94

1.60

2.03

1.12y

20.96

-.32

15

7) XU030X 12 C96

4.87y

35

96

22) XU030X 12 P96

1.73y

8) XU030X 12 C98

3.70y 24.20

.50

40

98

23) XU030X 12 P98

2.52y

9) XU030X 12 C100

2.73y

610

100

24) XU030X 12 P100

3.52y

10) XU030X 12 C102

1.70

2.15

1.95y 22.66

.34

1218

102

25) XU030X 12 P102

4.71y

27 Feb 15 (120d); CSize 100; R 10.30

5

27 Feb 15 (120d); CSize 100; R 10.30

11) XU030X 2/15 C94

8.13y

94

26) XU030X 2/15 P94

1.74y

12) XU030X 2/15 C96

6.82y

96

27) XU030X 2/15 P96

2.37y

13) XU030X 2/15 C98

5.64y

98

28) XU030X 2/15 P98

3.13y

14) XU030X 2/15 C100

4.60y

100

29) XU030X 2/15 P100

4.03y

15) XU030X 2/15 C102

3.70y 24.66

.40

40

102

30) XU030X 2/15 P102

5.08y





# VENDOR CODES

## ➤ Reuters

### ❖ All Futures- **0#ISTFUT:**

		Name		Bid	Ask	Last	Settle	Prev.Settl.
▼ 0#ISTFUT:		<b>BIST ALL FUTURES</b>						
XU030Z4	↓	XU030 DEC14	↓	98.5000	98.5500	98.5250	98.5000	99.0250
TRYFV4	↑	USD/TRY OCT14	↑	2.2190	2.2200	2.2195	2.2200	2.2295
XU030V4	↓	XU030 OCT14	↓	97.6250	97.6500	97.6500	97.6250	98.0250
TRYFZ4	↓	USD/TRY DEC14	↓	2.2550	2.2560	2.2550	2.2555	2.2620
XAUTRYV4	↑	GOLD OCT14	↑	86.0000	86.2900	86.0700	86.0300	88.1700
EURTRYZ4	↓	EUR/TRY DEC14	↓	2.8315	2.8460	2.8350	2.8350	2.8750
XAUTRYZ4	↓	GOLD DEC14	↓	87.6500	88.1000	87.6800	87.8000	89.7200
XAUUSDV4	↑	USD GOLD OCT14	↑	1204.8500	1207.0000	1206.7500	1204.0000	1230.2500
AKBNKZ4	↓	AKBNK DEC14	↓	7.8400	8.1000	7.9000	7.9500	7.9500
EURTRYV4	↓	EUR/TRY OCT14	↓	2.7955	2.8000	2.8000	2.8000	2.8325
TRYFEURZ4	↑	EUR/USD DEC14	↑	1.2577	1.2590	1.2590	1.2595	1.2694
SAHOLZ4	↑	SAHOL DEC14	↑	10.1700	10.3800	10.2100	10.2000	9.8000
TRYFG5	↑	USD/TRY FEB15	↑	2.2860	2.2895	2.2900	2.2925	2.2925
GARANZ4	↓	GARAN DEC14	↓	8.5700	8.5900	8.5800	8.6100	8.6100
ISCTRZ4	↓	ISCTR DEC14	↓	5.3800	5.5000	5.4200	5.4500	5.4500

### ❖ All Options- **0#ISTOPT:**

	Name	Bid	Name	Ask	Open.Int	Last	Settle
▼ 0#ISTOPT:	<b>BIST ALL OPTIONS</b>		<b>BIST ALL OPTIONS</b>				
GARAN800V4.IS	GARAN OCT4 8P		GARAN OCT4 8P		12750	0.01	0.01
ISCTRE450X4.IS	ISCTR DEC4 4.5P		ISCTR DEC4 4.5P		4444	0.01	0.01
ISCTRE400X4.IS	ISCTR DEC4 4P		ISCTR DEC4 4P		4000	0.01	0.01
GARAN650X4.IS	GARAN DEC4 6.5P		GARAN DEC4 6.5P		3000	0.01	0.01
AKBNKE700V4.IS	AKBNK OCT4 7P		AKBNK OCT4 7P		2857	0.01	0.01
GARAN750V4.IS	GARAN OCT4 7.5P		GARAN OCT4 7.5P		2100	0.01	0.01
THYAOE625X4.IS	THYAO DEC4 6.25P		THYAO DEC4 6.25P		1600	0.01	0.01
XU03010200L4.IS	XU030 DEC4 102C	1.66	XU030 DEC4 102C	2.12	1218	1.95	1.95
ISCTRE500V4.IS	ISCTR OCT4 5P		ISCTR OCT4 5P		1150	0.01	0.01
GARAN750X4.IS	GARAN DEC4 7.5P		GARAN DEC4 7.5P		1000	0.01	0.01
GARAN775V4.IS	GARAN OCT4 7.75P		GARAN OCT4 7.75P		1000	0.01	0.01
ISCTRE550L4.IS	ISCTR DEC4 5.5C		ISCTR DEC4 5.5C		1000	0.19	0.19



## ➤ **Products:**

- ❖ Interest Rate Futures and Options
- ❖ Steel Futures

## ➤ **Projects:**

- ❖ Nasdaq Genium INET Trading/Clearing System Project to be implemented by Q3-2016 in VIOP
- ❖ A new market making scheme based on revenue sharing.



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