

# **Customized Indices, ETFs, and Islamic Depository Receipts Task Force**

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**Specialist**

**The Working Committee Meeting**

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# Task Force Members

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## **Coordinator**

- ✓ Istanbul Stock Exchange (Turkey)

## **Participants**

- ✓ Bursa Malaysia Berhad (Malaysia)
- ✓ Tehran Stock Exchange (Iran)
- ✓ Muscat Securities Market (Oman)
- ✓ Amman Stock Exchange (Jordan)
- ✓ Kyrgyz Stock Exchange (Kyrgyzstan)
- ✓ Islamabad Stock Exchange (Pakistan)
- ✓ Dubai Financial Market (U.A.E)
- ✓ Doha Securities Market (Qatar)
- ✓ Egyptian Stock Exchange (Egypt)

# **Objectives of OIC Member Stock Exchanges Cooperation**

- ✓ Providing alternative instruments such as Islamic Repo and Islamic Depositary Receipts to the investors
- ✓ Calculating a common Benchmark Index and creating investable Islamic ETFs
- ✓ Encouraging cross-border listings, information and technology sharing
- ✓ Implementing standards for market integration and enhancing corporate governance practices

# Questionnaire

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- A detailed questionnaire has been sent to all members of the Task Force in order to identify the similarities that could promote collaboration and coordination among the OIC Member States Stock Exchanges

## **Sub-Titles of the Questionnaire**

- ✓ General Information About the Exchange
- ✓ Foreign Investment Policies
- ✓ Financial Instruments, Indices and Market Figures
- ✓ Costs, Commissions and Fees
- ✓ Trading Systems and Data Dissemination
- ✓ Corporate Governance Practices

# Questionnaire Results

6 members has responded the questionnaire

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Amman Stock Exchange



Doha Securities Market



Egypt Stock Exchange



Islamabad Stock Exchange



Istanbul Stock Exchange



Tehran Stock Exchange



# Questionnaire Results

## (General Information About The Exchanges)

- ✓ Ownership status is different
- ✓ Each exchange is trading 5 days per week, but business days are different

Exchange	Ownership Status	Trading Days	Trading Hours
Amman	N/A	Mon-Tue-Wed-Thu-Sun	Equities: Pre-opening 09:30-10:00AM, Continuous Trading 10:00-12:00 AM Bonds: Pre-opening 09:30-09:35AM, Continuous Trading 09:35-09:55 AM
Doha	Government	Mon-Tue-Wed-Thu-Sun	Equities: 09:30 AM-12:30 PM
Egypt	Government	Mon-Tue-Wed-Thu-Sun	Equities: Pre-open 09:45-10:15 AM, Random Closing: 10:15-10:30 AM, Official Trading 10:30 AM-2:30 PM Primary Dealers Bonds Market: 10:30 AM-2:30 PM
Islamabad	Private	Mon-Tue-Wed-Thu-Fri	Equities: 09:30 AM-3:30 PM
Istanbul	Semi-Governmental	Mon-Tue-Wed-Thu-Fri	Equities: Pre-opening 09:15-09:30 AM, Continuous Trading 09:30AM-12:30PM; 2:00-5:00 PM Bonds: 09:30-12:00AM; 1:00-5:00 PM
Tehran	Private	Sat-Sun- Mon-Tue-Wed	Equities: 09:00-12:00 AM

# Questionnaire Results

## (Foreign Investment Policies)

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✓ Participating countries have different foreign investment policies and taxation regimes

Exchange	Restrictions in Ownership	Differences in Taxation Regime
Amman	No restrictions	No tax on dividends and on capital gains
Doha	25%	No tax on dividends, no tax on capital gains
Egypt	No restrictions	Treated as local investors Foreign investors are prohibited to trade specifically at 4 companies There are no tax restrictions for the foreign investors
Islamabad	N/A	Treated as local investors
Istanbul	No restrictions on foreign portfolio investments	Tax advantages for foreign investors
Tehran	10%	No tax on dividends and on capital gains

# Questionnaire Results

## (Financial Instruments, Indices And Market Figures)

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- ✓ Equities are traded in each of these member exchanges
- ✓ Bonds are traded in Amman, Egypt, Tehran and Istanbul Stock Exchanges
- ✓ ETFs are traded in Istanbul and Egypt Stock Exchanges
- ✓ Other instruments (Rights, Mutual Funds etc.) are traded in some of these member exchanges

Exchange	Equities	Bonds	ETFs	GDRs	M. Funds	Other (Rights, etc)
Amman	✓	✓				✓
Doha	✓					
Egypt	✓	✓	✓	✓	✓	
Islamabad	✓					
Istanbul	✓	✓	✓		✓	✓
Tehran	✓	✓				

# Questionnaire

## (Financial Instruments, Indices and Market Figures)

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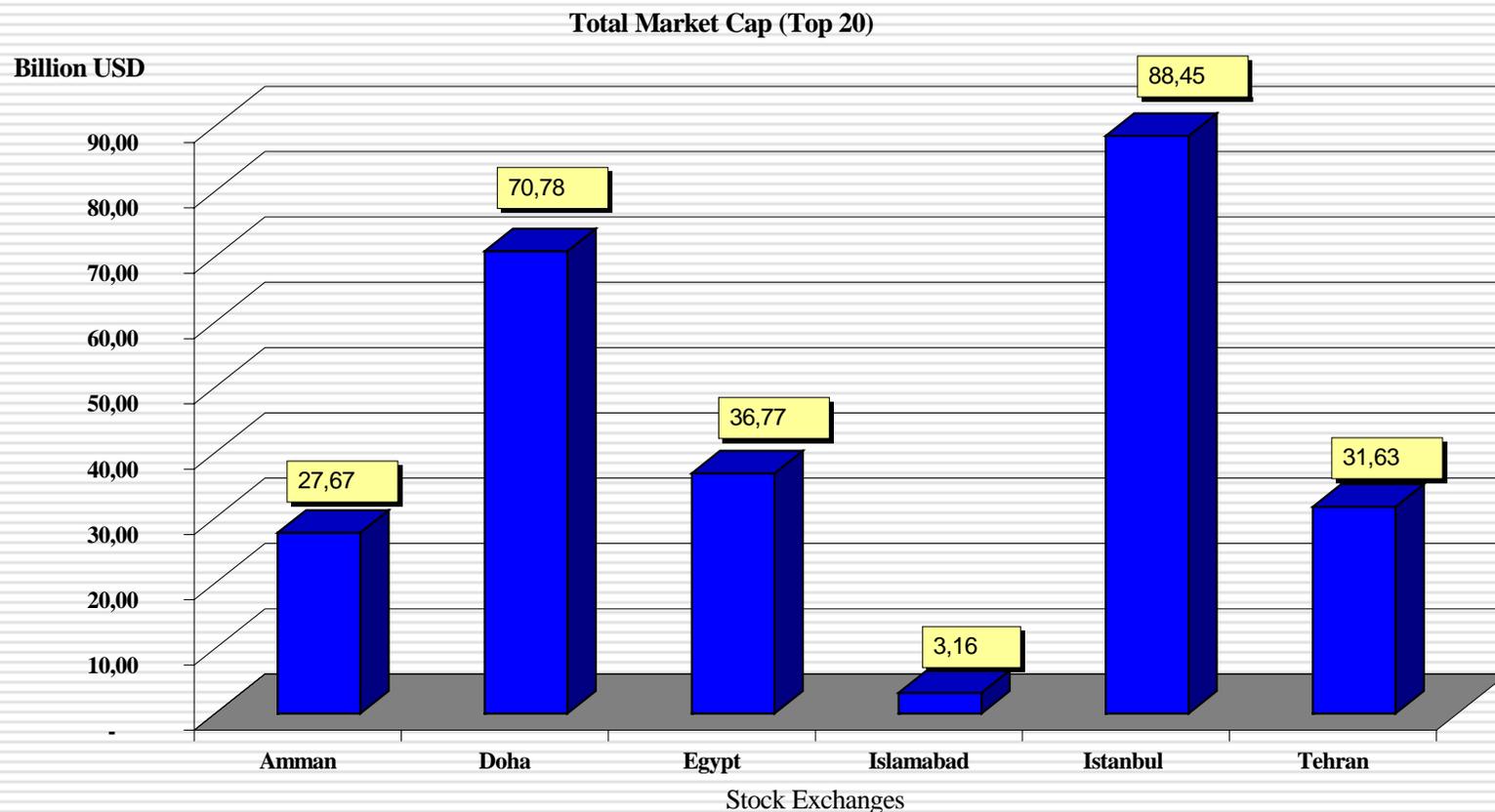
- ✓ Some members have separate Index Committees and Departments
- ✓ Each member calculates its own indices, additionally Amman has an agreement with Dow Jones

Exchange	Index Department/Committee	Calculates its own Indices
Amman		✓ + One with Dow Jones
Doha		✓
Egypt	✓	✓
Islamabad		✓
Istanbul	✓	✓
Tehran		✓

# Questionnaire Results

## (Financial Instruments, Indices and Market Figures)

✓ “Banking and Investment”, “Telecommunications”, “Oil, Gas and National Resources” are leading sectors in terms of Market Cap and Liquidity in member Stock Exchanges



# Questionnaire Results

## (Costs, Commissions and Fees for Equities)

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✓ Different types and amounts of costs, commissions and fees

Exchange	Initial Listing	Annual Fee	Brokerage Commission
Amman			0,004%-0,006%
Doha		3000 QAR+0,0003% of the subscribed capital	0,00275% (min 30 QAR)
Egypt		0,2% of the listed capital (min LE10,000 – max LE50,000)	Negotiable Between 0,25%-1,5%
Islamabad	1% of the paid in capital max RS 1 mn		1% of the shares value
Istanbul	0,1% of the nominal value	0,025% of listed capital	Negotiable, Unrestrained
Tehran			0,4% of the transaction

# Questionnaire Results

## Trading Systems and Real Time Data Dissemination

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- ✓ NSC, Horizon, X-Stream, TCAM, OTASS and JAM are used as trading systems
- ✓ Real time data dissemination is provided by Reuters, Bloomberg and local vendors; except Islamabad and Tehran

Exchange	Trading System	Data Dissemination
Amman	NSC an international one	Reuters, Bloomberg, Local and Regional Data Vendors
Doha	Horizon (OMX)	Reuters, Bloomberg
Egypt	X-Stream	Reuters and Egypt for Information Dissemination
Islamabad	Common trading platform with Lahore	Real time data dissemination through the web site of the exchange
Istanbul	Equities: TCAM Bonds: OTAS (new OMX)	Reuters, Bloomberg, National Data Vendors
Tehran	JAM	Does not have real time data dissemination through data vendors

# Questionnaire Results

## Corporate Governance Practices

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- ✓ Corporate Governance arrangements in Doha, Islamabad and Istanbul
- ✓ A special Corporate Governance Index in Istanbul

Exchange	Corporate Governance
Amman	N/A
Doha	QFMA (Qatar Financial Markets Authority) prepared Corporate Governance rules for listed companies.
Egypt	N/A
Islamabad	A code of Corporate Governance was developed by SECP (Securities & Exchange Commission of Pakistan).
Istanbul	CMB (Turkish Capital Market Board) has published Corporate Governance Principles ISE (Istanbul Stock Exchange) has formed a Corporate Governance Index, XKURY.
Tehran	N/A

# ISE's ETF Experience

## An ETF based on Islamic Index=DJIMT

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- ✓ In February 2006, Dow Jones DJIM Turkey was launched
- ✓ The first ETF in the world based on an Islamic market index
- ✓ DJIM is based on an index currently composed of 32 stocks traded at the ISE
- ✓ Total number of shares 3.000.000, creation and redemption size 10.000
- ✓ DJIM ETF Unit Composition (33% Turkcell, 12% Eregli, 12% Turk Telecom, 7% Bim and 36% other stocks)
- ✓ T+2, Takasbank is the Custody Bank
- ✓ Market Cap is USD 2,6 million as of 31.03.2009
- ✓ Total Trading Volume in 2009 is USD 14,8 million as of 31.03.2009
- ✓ [www.djimtr.com](http://www.djimtr.com)

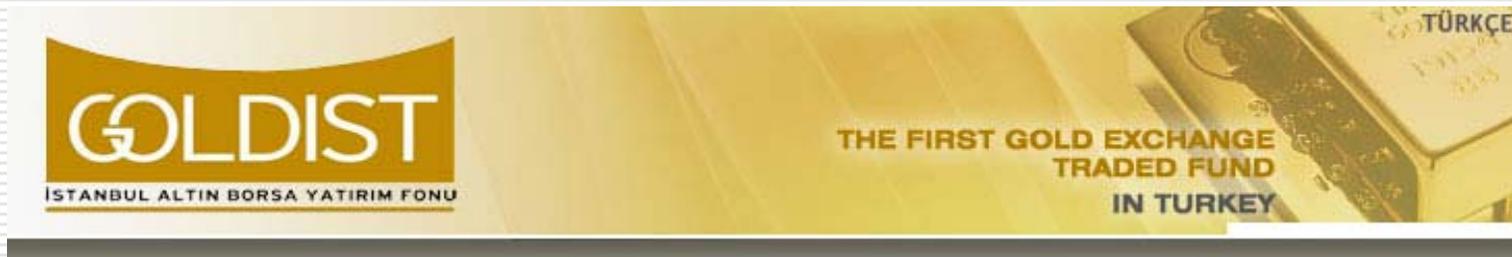


# ISE's ETF Experience

## An ETF based on Gold=GLDTR

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- ✓ In September 2006, Goldist Turkey was launched
- ✓ The first Gold ETF in Turkey; 1 Goldist share=0,98 gram Gold
- ✓ Total number of shares 1.100.000, creation and redemption size 100.000
- ✓ T+2; Takasbank is the Creation and Redemption Agent
- ✓ Istanbul Gold Exchange is the Custodian
- ✓ Market Cap is USD 22,6 million as of 31.03.2009
- ✓ Total Trading Volume in 2009 is USD 214,5 million as of 31.03.2009
- ✓ [www.gldtr.com](http://www.gldtr.com)



# ISE-Athens Stock Exchanges Common Index Project – GT30

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- ✓ Istanbul and Athens Stock Exchanges decided to launch a common index (GT30), aiming to create a joint ETF to be traded on both markets
- ✓ A Working Committee is established between the two stock exchanges and STOXX in order to finalize the terms and calculation methodology
- ✓ 30 Shares, 15 from each market
- ✓ Limit securities from the Banking Sector to 4 from each market
- ✓ Eligible securities from the ISE National Market and the Athex Big Cap Category
- ✓ As a selection criteria, free float restriction band is set to 20%
- ✓ Use Full Market Cap in the Index calculation formula
- ✓ Calculate both price and return Indices in TRL and Euro currency



# ISE's Conventional Repo Market

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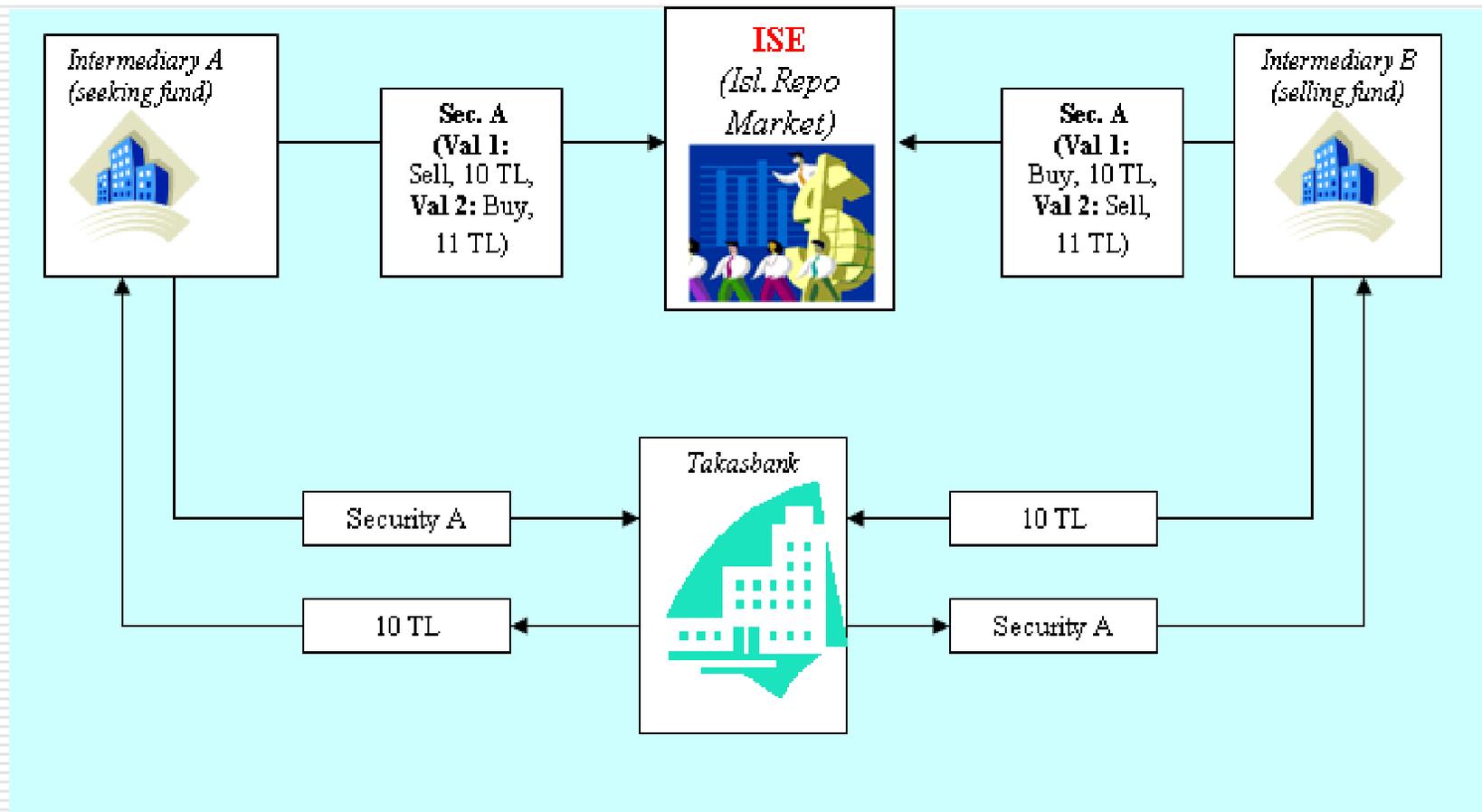
- ✓ Conventional Repo market operates like a collateralised money market with the clearing and settlement bank
- ✓ Participants give their bids and offers for a certain amount of value without specifying the security
- ✓ After the execution of the order, the repo party will nominate the security or securities to be deposited as collateral for the repo term. Securities that will be delivered by the bid side are held in custody on behalf of reverse repo party by the clearing and settlement bank
- ✓ During the repo term, securities held in custody are marked to market and any deficits are covered by the repo party by delivering more securities (margin call)
- ✓ Reverse repo party members can use securities deposited against repo transactions for new repo transactions but only where the term of the new transaction is shorter than the previous one

# Islamic Repo Market Project - 1

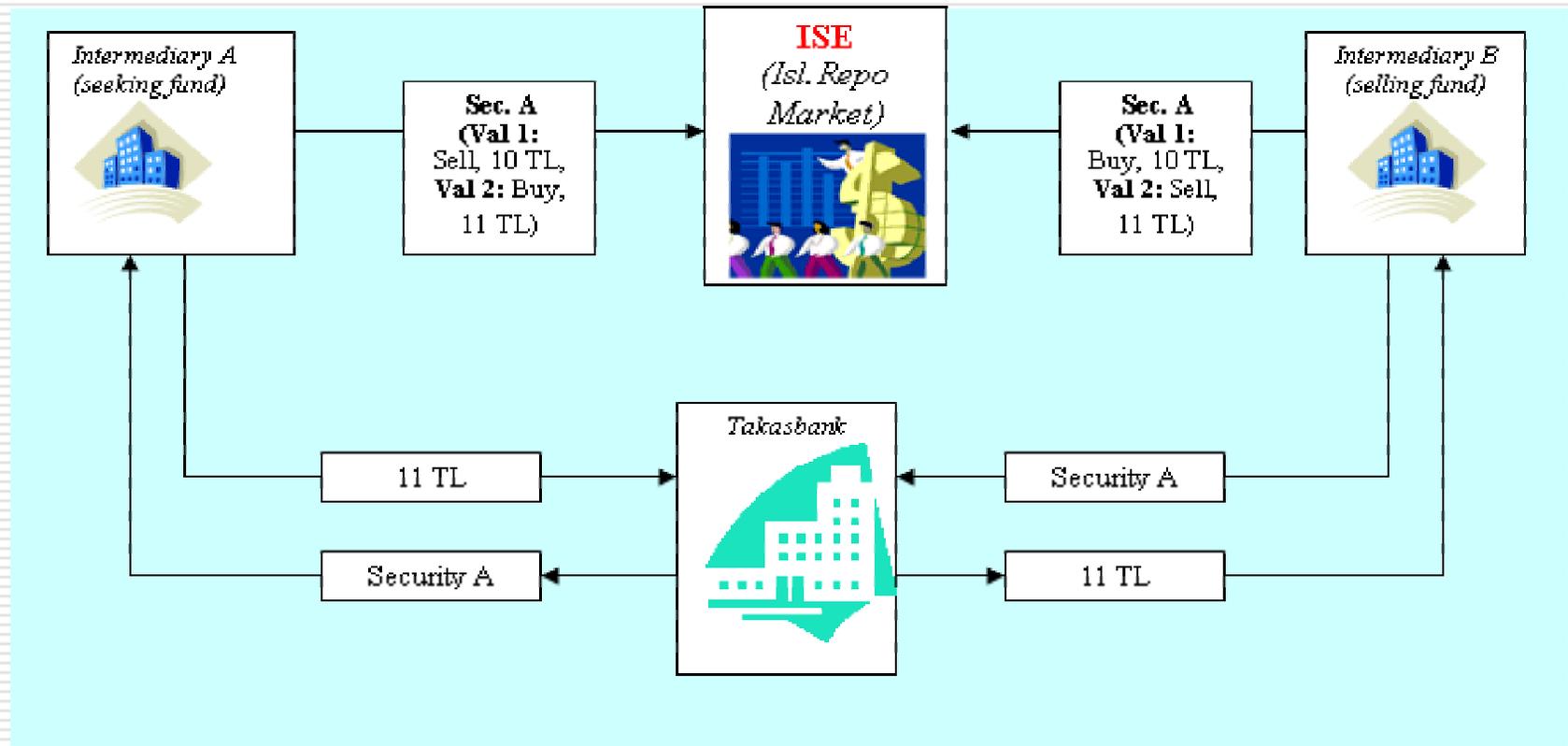
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- ✓ The subject of the repo is a specified security (A Sharia-compliant instrument)
- ✓ The security that is subject to the repo transaction is not held in custody by the clearing and settlement bank, rather it is delivered to the reverse repo party
- ✓ There is no repo rate, but sell and repurchase price
- ✓ The buy/sell order specifies both the sell and repurchase price for the underlying security
- ✓ There is no daily marking to market provided by the Exchange, thus no margin call

# Islamic Repo Market Project-2 (Valeur 1)



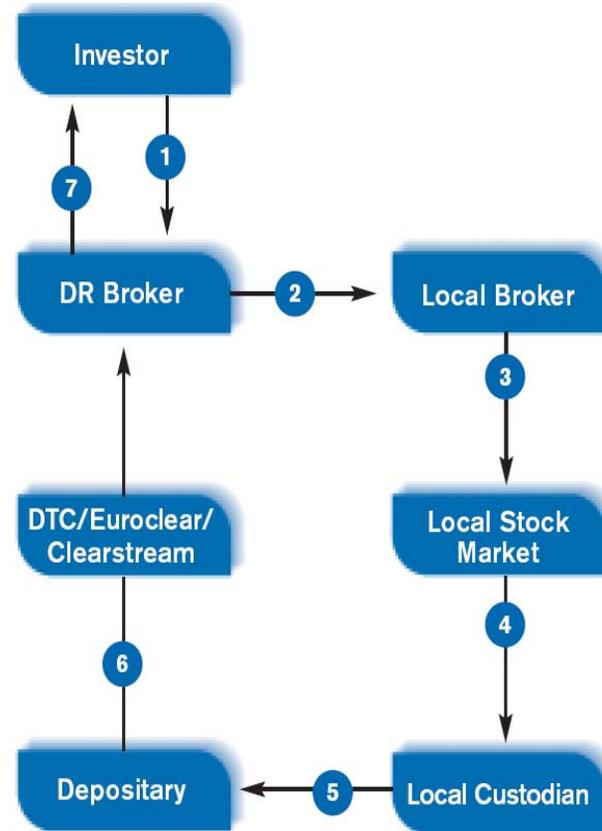
# Islamic Repo Market Project-3 (Valeur 2)



# Depository Receipts

## DR Issuance Process

- 1 Investor contacts broker and requests the purchase of a DR issuer company's shares. If existing DRs of that company are not available, the issuance process begins.
- 2 To issue new DRs, the broker contacts a local broker in the issuer's home market.
- 3 The local broker purchases ordinary shares on an exchange in the local market.
- 4 Ordinary shares are deposited with a local custodian.
- 5 The local custodian instructs the depository to issue DRs that represent the shares received.
- 6 The depository issues DRs and delivers them in physical form or book entry form through DTC/Euroclear/Clearstream (as applicable).
- 7 The broker delivers DRs to the investor or credits the investor's account.



Source: Andrew Mulley "Cross-Border Trends and Solutions in Issuer Services", Istanbul, Turkey 18th October 2008

# Islamic Depository Receipts (IDR) Project-1

1-The investor contacts broker and request the purchase of a IDR issuer company's shares

2-To issue new IDRs the broker contacts an OIC local broker in the issuer's home market

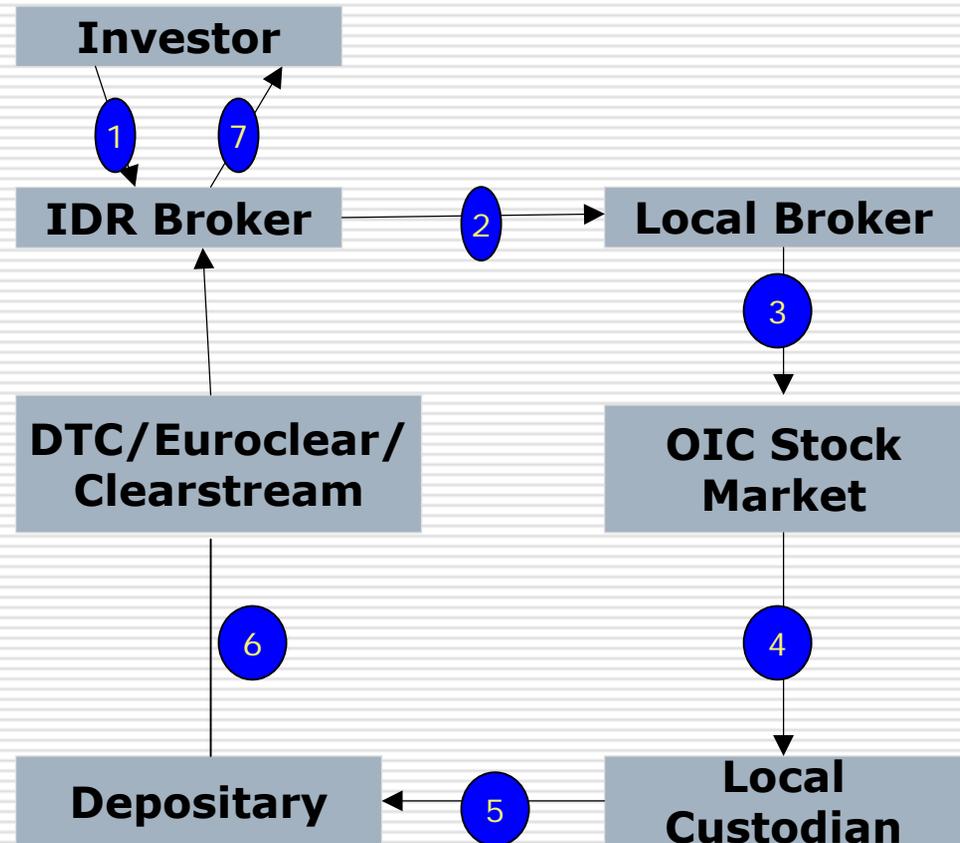
3-The local OIC broker purchases ordinary Sharia Compliant shares in the local market

4-Ordinary Sharia Compliant shares are deposited with a local custodian

5-The local custodian instructs the depository to issue IDRs that represent the shares received

6-The depository issues IDRs and delivers them through DTC/Euroclear or Clearstream

7-The broker delivers IDRs to the investor



# Islamic Depository Receipts (IDR) Project-2

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## Main Points

- ✓ IDR should be a transferrable Shari'a compliant instrument traded on the stock exchanges of an OIC member country, but represents a stock that is listed and issued by a firm in another OIC member country
- ✓ A common monetary unit should be used for the IDR (i.e Euro)

## Advantages for companies & investors

- Expanding investor base and obtaining funds form other countries
- Cheaper funding options
- Portfolio diversification

# Recommendations

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- ✓ Promoting the creation of Islamic indices and ETFs
- ✓ Developing Islamic Depositary Receipts (IDR) on Shariah compatible products
- ✓ Using [www.oicexchanges.org](http://www.oicexchanges.org) web site to share data, information and best practices among the Task Force Members
- ✓ Organizing joint training and staff exchange programs
- ✓ Synchronizing the process and the requirements for licensing and registration of market participants and products prior to implementation