

Customized Indices and Exchange Traded Islamic Financial Products Task Force

OIC Member States' Stock Exchanges Forum
3rd Working Committee Meeting
April 26-28 2010, Abu Dhabi

Şenay PEHLİVANOĞLU
Istanbul Stock Exchange (ISE)
Assistant Director

Task Force Members

- Coordinator: Istanbul Stock Exchange, Turkey
- Participants:
 - Amman Stock Exchange
 - Bursa Malaysia Berhad
 - Dhaka Securities Market
 - Doha Securities Market
 - Dubai Financial Market
 - Egyptian Exchange
 - Islamabad Stock Exchange
 - Kyrgyz Stock Exchange
 - Lahore Stock Exchange
 - Muscat Securities Market
 - Saudi Arabian Stock Exchange (Tadawul)
 - Tehran Stock Exchange

The Third Forum Meeting Decisions (Istanbul, October 24–25, 2009)

- ▶ At the meeting, the following decisions were taken regarding “Customized Indices, ETFs and Islamic Depositary Receipts Task Force:
 - The name of the Task Force is converted to “Customized Indices and Exchange Traded Islamic Financial Products”
 - The Task Force is mandated to:
 - Communicate with various index providers to determine alternative types of investable indices
 - Consult with IIFM and AAOIFI to determine ways to offer practical, easily comprehensible and cost effective financial instruments, particularly exchange traded commodity contracts and Islamic repo and make recommendations

Cooperation with Standard Setting Bodies

IIFM

- As a part of Task Force activities, IIFM has been visited on March 2, 2010.
- During the visit;
 - the information about the ongoing studies on Islamic Repo has been inquired.
 - The organization of a workshop for the members of OIC Stock Exchanges' representatives during the Working Committee meeting in Abu Dhabi was discussed.

Cooperation with Standard Setting Bodies

IIFM

- Mr. Ijlal Ahmed Alvi (CEO) and Chief Shariah Advisor Mr. Ahmad Rufai Mohammed have revealed that:
 - IIFM started studying on structuring a Commodity Murabaha type transaction that is collateralized with Sukuk, namely I'aadat Al Shira'a (IS).
 - “Tahawwut Master Agreement (TMA)” has been co-structured and finalized with the joint effort of IIFM and International Swaps and Derivatives Association (ISDA) to appeal hedging needs of Islamic financial institutions.
 - It was agreed that IIFM officials would present the Sukuk Collateralized Commodity Murabaha (I'aadat Al Shira'a) and Tahawwut Master Agreement at the Working Committee meeting in Abu Dhabi.

Cooperation with Standard Setting Bodies

AAOIFI

- The ISE Group also have paid a visit to Mr. Khairul NIZAM, Assistant Secretary General of AAOIFI.
- Mr. NIZAM affirmed that the Institution would like to organize training activities on-demand about Shariah standards related to Islamic financial instruments for OIC Members.

Interviews with Other Organizations

LMC

- ▶ The Task Force fellows have also visited Liquidity Management Center (LMC), founded by 4 Islamic financial institutions
 - Bahrain Islamic Bank, Dubai Islamic Bank, Islamic Development Bank and Kuwait Finance House.
- ▶ Mr. Mohammed Habib Hasan, Investments Manager of LMC gave information about the liquidity management facilities provided by the Center.

Portfolio Management Companies

- ▶ Meetings were held with Turkey-based Portfolio Management companies to better understand the demand side.

Customized Indices Roadmap for an OIC Index

Stage 4 – Decision

Deciding on index provider, constituent members
Setting the rules, discussing costs and revenues

Stage 3 – Consult ✓

Consulting with index provider companies

Stage 2 – Analyse ✓

Getting information about members' capital markets,
Analysing FEAS and GT-30 customized indices as models

Stage 1 – Start ✓

Establishing “Customized Indices and Exchange Traded Islamic
Financial Products” Task Force

Customized Indices Index Providers

In accordance with the decisions taken at the 3rd Forum Meeting in Istanbul, we consulted with the reputable Index Providers:



FTSE, MSCI and S&P are going to present their solutions to the Working Committee right after our presentation.

Customized Indices

Consultations with the Index Providers

- ▶ **Paradox:**
 - Numerous Islamic indices / non-Islamic countries' equities
- ▶ **Purpose:**
 - To include Shariah-compliant equities from our Exchanges
- ▶ **Priorities:**
 - Facilitating the collaboration among the OIC Exchanges
 - Promoting the OIC Member States' Stock Exchanges Forum
 - Creating different investment alternatives

Customized Indices

Consultations with the Index Providers

- ▶ Issues to consider:
 - Ownership of Intellectual Property
 - Branding
 - Maintenance and Distribution Costs
 - Cost and Revenue Sharing
 - Market Demand
 - Coverage

Customized Indices

Consultations with the Index Providers

- Two types of Indices:
 - **A broad index representing the whole OIC region** (benchmark index), widest coverage to highlight the OIC Brand
 - **A narrower index** (investable index), will serve as the basis of a tradable product
- Launch:
 - OIC Shariah Compliant Indices are expected to be launched in October 2010.
- Projection:
 - Besides regional and tradable indices, we are open to different alternatives e.g. sectoral and corporate governance indices and would consider working with different index providers for different indices.

Customized Indices

Comparison of Index Providers – Coverage

	COUNTRY	STOCK EXCHANGE	Task Force Member	MSCI	MSCI-TRDB	S&P	FTSE-OIC
1	ALBANIA	Tirana					
2	ALGERIA	Bourse d'Alger					
3	AZERBAIJAN	Baku Interbank Currency Ex.					
4	AZERBAIJAN	Baku					
5	BAHRAIN	Bahrain		1		1	1
6	BANGLADESH	Dhaka Stock Exchange	1	1		1	1
7	BANGLADESH	Chittagong Stock Exchange					1
8	COTE D'IVOIRE	Bourse Regionale Des Valuers Mobilieres				1	1
9	EGYPT	Egyptian Exc.	1	1	1	1	1
10	INDONESIA	Indonesia		1	1	1	1
11	IRAN	Tehran	1				
12	IRAQ	Iraq					
13	JORDAN	Amman	1	1		1	1
14	KAZAKHSTAN	Kazakhstan		1		1	
15	KUWAIT	Kuwait		1		1	
16	KYRGYZ	Kyrgyz	1				
17	LEBANON	Beirut		1		1	
18	MALAYSIA	Bursa Malaysia Berhad	1	1	1	1	1
19	MOROCCO	Casablanca		1	1	1	1
20	MOZAMBIQUE	Mozambique					
21	NIGERIA	Nigerian SE		1		1	1
22	OMAN	Muscat Securities Market	1	1		1	1
23	PAKISTAN	Lahore	1				1
24	PAKISTAN	Karachi		1		1	1
25	PAKISTAN	Islamabad	1				
26	PALESTINE	Palestine					
27	QATAR	Qatar Exchange	1	1		1	1
28	SAUDI ARABIA	Saudi Arabian SE	1	1		1	
29	SUDAN	Khartoum					
30	TUNISIA	Tunisia		1		1	1
31	TURKEY	Istanbul	1	1	1	1	1
32	UGANDA	Uganda					
33	UNITED ARAB EMIRATES	Dubai Financial Market	1	1		1	1
34	UNITED ARAB EMIRATES	Abu Dhabi Securities Ex.		1		1	1
35	UZBEKISTAN	Toshkent Republican SE					
			13	19		20	18

Customized Indices

Comparison of Index Providers

Index Methodology and Properties

	Index methodology	Index Properties
MSCI	Existing MSCI Global Islamic Index	Market Cap weighted, Free float adjusted
S&P	Existing S&P BMI Shariah index	Market Cap weighted, Free float adjusted
FTSE	Existing FTSE Shariah Global	Market Cap weighted, Free float adjusted

Shariah Boards

MSCI	<p>The Shariah Supervisory Board of Dar al Istithmar</p> <p>Dr. Hussain Hamid Hassan</p> <p>Dr. Ali AlQaradaghi</p> <p>Dr. Abdul Sattar Abu Ghuddah</p> <p>Dr. Mohamed Daud Bakar</p> <p>Dr. Mohamed Elgari (MSCI GCC Countries Islamic Indices)</p>
S&P	<p>Dr. Muhammad Ali Elgari (Saudi Arabia)</p> <p>Dr. Abdul Sattar Abu Ghuddah (Syria)</p> <p>Dr. Nazih Hammad (Canada)</p> <p>Dr. Mohammad Amin Ali-Qattan (Syria)</p>
FTSE	<p>The Shariah Board of Yasaar Ltd.</p> <p>Screening is outsourced to Yasaar Research Inc., a subsidiary of Yasaar Ltd</p>