

ISLAMIC CAPITAL MARKET QUARTERLY BULLETIN

4th QUARTER 2011

We welcome the readers of the Islamic Capital Market (ICM) Quarterly Bulletin. The Bulletin focuses on the work undertaken by the CMDA to develop the ICM and the progress to date.

Development of Islamic Equity Market

Within the year, Maldives has witnessed the listing of the first Islamic equity or the Shariáh compliant securities on the Maldives Stock Exchange.

The IPO of Amana Takaful (Maldives) Plc. was opened for subscription on 20th September 2011 and closed on 19th November 2011. The fact that ATM shares were oversubscribed proves the potential for Islamic Capital Market products in Maldives.

ATM is the first company included in the MSE White List. It is anticipated that in the coming year, there will be more companies included in the MSE White List.

CMDA invites companies interested to issue Shariáh compliant securities and seeking a listing on the MSE to contact CMDA for screening.

CMDA extends sincere appreciation to IDB for providing assistance in our efforts to develop an Islamic capital market. In this regard, we would like to thank IDB President Dr. Ahmad Mohamed Ali Al Madani and officials of IDB for their assistance during 2011.

CMDA also thank the stakeholders and general public for their cooperation in market development efforts.



CMDA

Capital Market Development Authority

MTCC Tower, 4th Floor,

Boduthakurufaanu Magu

Website: www.cmda.gov.mv

Shariáh Consultant:

During the quarter, Dr. Asyraf Wajdi Dusuki was appointed as the Shariáh Consultant to the Capital Market Shariáh Advisory Committee (CMSAC). Dr. Asyraf works as the Head of Research Affairs at the International Shariáh Research Academy for Islamic Finance (ISRA).

Main Targets - 1st Quarter 2012

- Survey to facilitate Shariáh Screening & Listing.
- Formulate three key Regulations & Guidelines.
- Facilitate a new company in issuance of Sukuk
- Prepare Shariáh Tool kit.
- Conduct Islamic Capital Market Seminars & other Market Awareness Programs.
- Enter into an MoU with an International Training Institute specialized in Islamic finance.

Islamic Capital Market

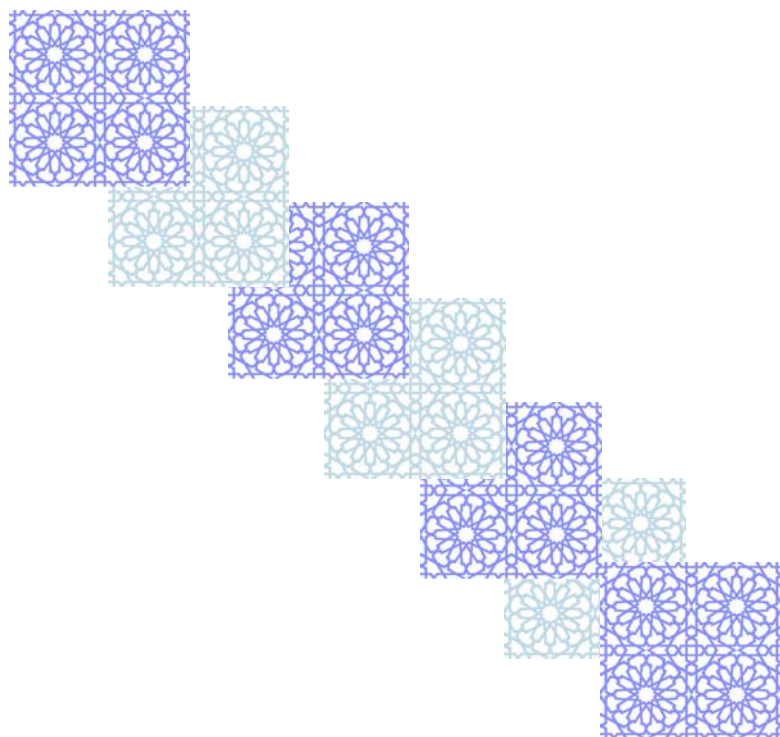
Equity

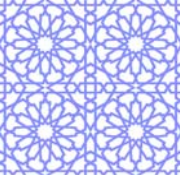
Funds & Unit Trusts

Private Equity & Venture Capital

Real Estate Investment Trusts

Other Islamic Structured Products & Sukuk





Islamic Capital Market Quarterly Bulletin

TRAINING & AWARENESS

Training Course on Islamic Capital Market

Following the success of the first seminar held in collaboration with IDB in April 2011, the second training program jointly organized with IRTI was held during the quarter. The five-day training program on “Operations of Islamic Capital Market” was conducted in November. Thirty five participants rang from government institutions, public as well as private



institutions engaged in the financial sector and delegates from Bangladesh, participated in the program. The main objective of the training program was to enhance the operational knowledge about Islamic Capital Market and its supplementary components.

The program was facilitated by both international and local resource persons. The resource persons from IDB were Assoc. Prof. Dr. Asyraf Wajdi Dusuki who is the Head of Research Affairs, International Shari’ah Research Academy for Islamic Finance (Malaysia) and Mr. Adiwрман Azwar Karim who is the Vice Chairman of the National Board, Council of Indonesian Ulama. Uza. Aishath Muneeza, Head of Islamic Capital Market Development of CMDA also facilitated the program.

Representative of Islamic Research Training Institute Mr. Faisal Slama was the key coordinator of this program.

Awareness Program on Islamic Capital Market

Information regarding Islamic Capital Market was presented to people of K. Dhiffushi and K. Thulusdhoo.

In the investor education trip, CMDA staff gave information on Islamic Capital Market Products and their benefits for the investors. Number of participants from Atoll Councils and the public participated in the discussions and seminars held in the trip.

Awareness Program through Raajje Radio

In order to facilitate Islamic Finance in Maldives, three month program on Islamic Capital Market was kicked off through Raajje Radio during the quarter. The program is broadcasted every Friday night at 9 pm to 10 pm. A live Q & A session is also opened to the public in the program. The program is well received and public concerns and issues raised through the program are noted by CMDA for action.

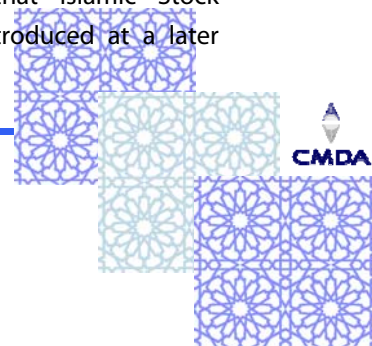
Area for Legal Reform

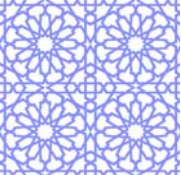
CMDA’s Head of Islamic Capital Market Development, Uza. Aishath Muneeza identified areas in the current laws and regulations which hinders the development of Islamic financial products in Maldives. These concerns were raised in a presentation delivered in the Workshop on Business Law Reform organized by the UNDP, Ministry of Economic Development, and the law firm Suood Anwar & Co.

In Uza. Muneeza’s presentation, she specifically highlighted that structural changes are needed to the current legislations to accommodate Hajj Fund, Zakath Fund and financial endowment which can play an important role in the Islamic Capital Market in Maldives.

Islamic Stock Brokerage Service

Research was undertaken to determine the feasibility of introducing Islamic Stock Brokerage Services. Meetings were held with Maldives Stock Exchange, brokers and stakeholders to discuss matters relating to introduction of Islamic Stock Brokerage Services. After stakeholders discussions and with advise of consultants CMDA concluded that Islamic Stock Brokerage Services should be introduced at a later stage.





CMSAC Committee meetings

Capital Market Shari'ah Advisory Committee (CMSAC) met two times during the quarter. The Committee discussed on the introduction of Islamic Stock Brokerage Service and advised the CMDA Board to amend the Regulation on Conduct of Securities Business to facilitate Islamic Stock Brokerage Services in the current market situation. As such, the following amendments to the Regulation were proposed:

- To require the existing dealing companies to maintain separate book keeping for Islamic Brokerage Services.
- To provide a provision requiring the transactions to be free of interest in compliance with Shari'ah principles.

MSE White List

Work was undertaken to create a white list in the MSE. The first company to be published on the White List is Amana Takaful (Maldives) plc. Based on the advise of the CMSAC, Amana Takaful (Maldives) was endorsed as a Shari'ah compliant company by the CMDA Board.

The objective of creating a white list is to inform the investors about Shari'ah compliant securities. Companies included in the White List will be continuously monitored by CMDA for Shari'ah compliance.

RULES & REGULATIONS

During the quarter, the following Regulations & Guidelines were reviewed and translated. These are expected to be published on the government Gazette during the first half of 2012.

- **Guidelines on Registration of Shari'ah Advisers:** To facilitate registration of Shari'ah Advisers to advice on *Shari'ah-compliant* products and services.
- **Guidelines on the offering of Islamic Asset-Backed Securities:** To facilitate the issuance of asset backed securities.
- **Guidelines on Islamic Securities (Sukuk Guidelines):** To facilitate fund raising through issuance of Islamic Securities.

Further to this, a Screening Manual was compiled to structure and facilitate the Shari'ah Screening Process.

Upcoming survey

As part of Islamic Capital Market Going Public Campaign, CMDA will be conducting a survey to find out the companies that are interested to screen for Shari'ah compliance and to facilitate listing as a Shari'ah compliant company.

Steps for screening:

1. Apply for screening in a form specified by the Authority
2. CMDA to conduct an assessment and propose the findings to the Capital Market Shari'ah Advisory Committee.
3. Capital Market Shari'ah Advisory Committee gives recommendations.
4. Based on the endorsement from the CMDA Board, a company shall be declared as Shari'ah compliant company
5. Companies who receives an endorsement from the CMDA Board will be continuously monitored for compliance.

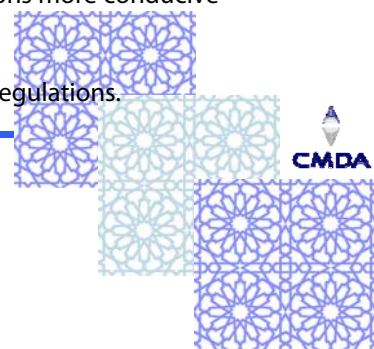
Important Meetings & Discussions

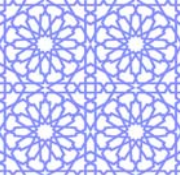
- Meeting with Senior Management of Villa TV regarding promotion of Islamic Capital Market.
- Discussion with HDFC and other potential Sukuk issuers.
- Meeting with Department of Judicial administration on arranging a workshop on Islamic capital market.
- Meeting with CMDA licensed institutions on conducting various market development programs.

IDB assistance for 2012

CMDA is seeking IDB's assistance in the following areas:

- To create an enabling environment for Islamic finance and make the regulations more conducive for Islamic capital market.
- Assist in formulating Rules & Regulations.





INTERVIEW OF A RENOWNED CONSULTANT

The following Q & A are from an interview with Mr. Adiwarman Azwar Karim who is the Vice Chairman of the National Shari'ah Board, Council of Indonesian Ulama.

Mr. Adiwarman Karim was a speaker at the training program, "Operations of Islamic Capital Market" organized by CMDA in collaboration with Islamic Research and Training Institute (IRTI).

1. What are the lessons that Maldives could learn from Indonesia when it comes to the development of Sukuk market?

Indonesia is a country who adopts bottom-up approach in developing its Islamic Finance industry in general and Sukuk in particular. This approach is market driven in which initiatives begin with existence of real demand and supply from the market.

There was no law and regulations governing Sukuk at the initial stage. It is pure market initiatives, which at that time was over-liquidity of Islamic banks. Following are the steps Indonesia followed;

1. **First step** was to bring the idea of issuing Sukuk to the National Shari'ah Board DSN and asked for fatwa. In that process, DSN had discussions with Capital Market Authority to seek possibilities of issuing Sukuk under existing law and regulations. It was found that the term "Sukuk" is unknown in Indonesia's law and regulations. Moreover, to have new law and regulations will take a very long process which would be too late.
2. **Second step** was to define and introduce the new term "obligasi syariah / Shari'ah bond" instead of "Sukuk" in DSN fatwa. This approach was seen as temporary solution for issuing "Sukuk" under existing law and regulations.
3. **Third step** was to design a Shari'ah compatible contract. There were two challenges at that time.

First, global common practice for Sukuk issuance is to operate SPV (Special Purpose Vehicle) which was basically a paper company to separate assets being used as underlying transaction from the company's assets. In Indonesia's law and regulations, the concept of SPV

was unknown. Secondly, global common practice for Sukuk issuance is using ijara based contract. Whilst in case of Indonesia, the first five "Sukuks" were based on Mudharabah. Hence DSN had to work on totally new structure, a structure without SPV and based on Mudharabah.

4. **Fourth step** was to translate DSN fatwa into a) legal contract and prospectus, b) accounting and tax treatment. After all these steps, then the first "Sukuk" was issued.

For several years corporate "Sukuks" were issued under existing law and regulations with three unique features:

- a. The name is "obligasi syariah / sharia bond", not Sukuk
- b. The structure is based on Wakalah, not SPV
- c. Mudharabah is popular as is ijara

The Indonesian approach is very flexible and easy to start with, and this is the most important lesson for countries which would be new entrants in Islamic finance industry.

2. Do you think it is viable to develop a Sukuk market in the Maldives with all the legal impediments?

Indonesia's approach to develop Sukuk market, in particular, and Islamic finance in general, is very lenient. It started with existing laws and regulations. Step by step process, and with that practical experience then new laws and regulations are developed along the way.

As of 2007, after 17 corporate Sukuk issuances then government and parliament worked together to sign off new law on State Sukuk in 2008.

Hence it is very possible to develop Sukuk market in Maldives using this kind of approach. It may begin with corporate Sukuk for ongoing projects and then, as every related party gets experience with Sukuk issuance, more formal approach such as new laws and regulations may take place.

