

ISLAMIC CAPITAL MARKET QUARTERLY BULLETIN

1ST QUARTER 2013

This bulletin focuses on the Islamic Capital Market (ICM) news and developments during the first quarter of 2013.

OVERVIEW OF THE QUARTER

The focus of this quarter was mostly the “Sukuk Market Development Project” and Islamic Capital Market education and awareness programs.

The Sukuk Market Development Project facilitated by IDB technical assistance was concluded during the quarter and a dissemination workshop was conducted for the stakeholders.

In addition to this, numerous tasks were undertaken with the Ministry of Islamic Affairs with a focus to develop Islamic Finance in the Maldives. The Authority extends its sincere thanks to the Ministry for the facilitations in taking forward various initiatives related to ICM development in the Maldives. Moreover, the Authority conveys special thanks to Amana Takaful Plc. & Maldives Islamic Bank Pvt. Ltd for the support and assistance provided in conducting the ICM training & awareness programs planned for the quarter.

Another important highlight of the quarter is the successful signing of the first Shariah compliant liquidity management instrument in the Maldives initiated by the Maldives Monetary Authority (MMA). We congratulate MMA & the government of Maldives for this important initiative.

The quarter witnessed various preparatory tasks related to the proposed HDFC Mudharabah Sukuk. The proposed issuance of HDFC Mudharabah sukuk in the next quarter is expected to be another landmark development in pioneering a Corporate Sukuk Market in the Maldives.

All queries with regard to the content of this report should be addressed to the Research & Publication Section (RPS) of the CMDA via email to mail@cmda.gov.mv or contact the Information Officer on (960) 3014121.



MEETING OF CAPITAL MARKET SHARIAH ADVISORY COMMITTEE (CMSAC)

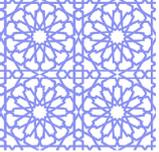
The Capital Market Shariah Advisory Committee (CMSAC) conducted its 14th Meeting during the quarter to discuss the progress and the future plans for ICM development in the Maldives.

An important agenda of the meeting was to meet the consultants of the Sukuk Market Development Project and discuss the major observations, recommendations and the way forward following the completion of the project.

The CMSAC also deliberated on the restructuring of CMSAC via the proposition of a regulation. Discussions were carried out with the consultants from Simmons & Simmons regarding Shariah governance with special reference to the proposed Regulation of the Capital Market Shariah Advisory Council. The draft regulation is open for public consultation.



CMSAC Meeting with Simmons & Simmons Consultants held on 11th March 2013



REGULATION ON CAPITAL MARKET SHARIAH ADVISORY COUNCIL

The Capital Market Shariah Advisory Committee (CMSAC) is a body established by the CMDA Board of Directors in 2011 to advise the Board on matters related to ICM.

Nearly after two years of CMSAC operations, the CMDA Board of Directors has approved changes to the structure and mandate of CMSAC via the proposition of the Regulation on Capital Market Shariah Advisory Council.

The significant effect of this regulation is that the composition of the committee will be changed and the conclusions of the Council will be published in the form of rulings. This is indeed a remarkable milestone towards adoption of Shariah governance in regulating ICM in the Maldives.

CONSULTANCY & ADVISORY SERVICES

The Authority is working with CARE Rating Maldives Pvt. Ltd to introduce Islamic Credit Rating Services to the Maldives with proper and adequate Shariah governance standards. Currently, CARE is working to establish a Shariah Rating Committee for this purpose. It is anticipated that Islamic Credit Rating Services will be introduced to the market in a near future.

COMCEC ISLAMIC FINANCE TASK FORCE

Since the appointment of the Authority as the co-chair of the COMCEC Islamic Finance Task Force in 2012, the Authority has taken an active role with SC Malaysia and COMCEC secretariat in taking forward various activities in line with the COMCEC Islamic Finance Task Force mandate.

The Task Force is working to publish a report on “Enhancing Infrastructure for Islamic Capital Market” with an emphasis on the following sub-segments of ICM infrastructural development:

- 1) Legal, Tax and Regulatory Framework;
- 2) Shariah Governance Framework;
- 3) Talent Development; and
- 4) Products and Services.

A questionnaire has been circulated to the member countries for their feedback. The Task Force is also working to compose working level committees to take forward the reviews once the feedbacks are collected. The Task Force aims to publish the final report in the next COMCEC Capital Market Regulators Forum.

OPERATIONALIZATION OF INCEIF MOU

The Authority is currently coordinating with INCEIF to conduct Chartered Islamic Finance Professional (CIFP) program in the Maldives. The negotiations on the matter are still on-going.

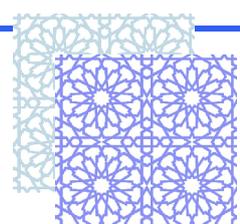
IMPORTANT MEETINGS

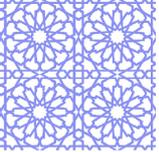
- Meeting with the Ministry of Finance & Treasury was conducted to discuss proposed technical assistance from IDB.
- The Authority met with the delegates from the IDB to review the technical assistance granted for the Sukuk Market Development Project of CMDA. CEO, Ms. Fathimath Shafeega and Head of Islamic Finance, Uza. Aishath Muneeza participated in the meeting and discussed the proposed areas in which the Authority needs future assistance. The Authority conveys sincere thanks to IDB for the continuous assistance and support.
- Meetings were held with ATM to discuss the proposed Annual Shariah screening & regulatory matters.

SUKUK MARKET DEVELOPMENT PROJECT— CONCLUSIONS & RECOMMENDED ACTION PLAN

The “Sukuk Market development Project” which began in December 2012 with the assistance of IDB was concluded successfully in March 2013. IDB is a key driving force assisting the development of an Islamic Finance industry in the Maldives.

The final report of the project was presented to the Authority in March 2013 followed by dissemination workshops. A summary of the report has been published on CMDA website. The





document is available for download on www.cmda.gov.mv



Dissemination workshop held on 10th March 2013

The report suggested a framework for the Authority to supervise the process of structuring and issuing Sukuk in the Maldives and their practices.

The report potential legal obstacles facing the issuance of certain type of Sukuk structures that can be adopted for the current legal environment in the Maldives.

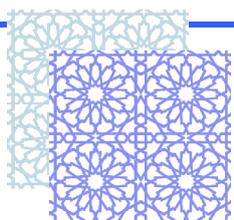
The report recommended legislative changes, incentives to encourage the issuance and the investment in Sukuk and suggested ways in which the Authority may educate potential investors and issuers on the potential for Sukuk in the Maldives.

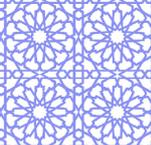
The report also states that Sukuk cannot be considered in isolation from the rest of the market. Sukuk may carry a number of risks such as price volatility , currency risks & lack of a liquid secondary market. In recognition of these risks, Islamic finance market has started to develop instruments to hedge these risks in Shariah compliant manner. Although these products have yet to be standardized, there is greater acceptance and need for these structures. The report has outlined how these products can be structured and documented.

Sukuk are very much in demand amongst investors (especially Shariah-sensitive investors) looking for relatively secure income-generating instruments compared to risky equity investments.

The action plan recommended by the consultants is summarized below:

- The passing of legislation to enable the creation of bankruptcy remote special purpose vehicles in the Maldives.
- The passing of legislation removing tax impediments to the issuance of Sukuk such as in respect of land tax and GST, and introducing tax incentives for the issuance and listing of Sukuk.
- The specification of enforcement powers of CMDA in the proposed Sukuk Regulations.
- The issuance of sovereign Sukuk by the Government of the Maldives with varying maturities to create a pricing and documentation benchmark.
- The development by the CMDA of a dedicated website outlining the current regulatory framework and incentives for the issuance of Sukuk in the Maldives and containing sample documents.
- The publication by the CMDA of a white paper clarifying the status and regulatory environment for Sukuk in the Maldives.
- The development by the CMDA of a standard Sukuk prospectus and standard underlying documents for Sukuk.
- Ascension by the Maldives to the New York Convention.
- The development by the MMA of facilities such as Islamic repos to enable greater liquidity in the local Sukuk market.
- Undertaking a market analysis in the Maldives amongst potential retail and institutional investors in relation to the appetite for equity and/or debt Sukuk, pricing and maturity profiles and currencies for Sukuk issuances.





SUKUK MARKET DEVELOPMENT PROJECT—SIMMONS & SIMMONS LLP —INTERVIEW OF THE CONSULTANTS

How was your experience in conducting the “Sukuk Market Development Project” in the Maldives?

The CMDA kindly arranged for us to meet a number of industry representatives in the Maldives. This greatly assisted in helping us to understand the demands and sensitivities of potential issuers of and investors in Sukuk. In our interviews with various participants, representatives were very open to sharing their concerns and expectations. The relevant laws and regulations in the Maldives were also easily accessible, enabling us to undertake a detailed analysis of the existing legal and regulatory environment in the Maldives.

How would you describe the progress of Islamic Finance especially the Islamic Capital market in the Maldives?

In our experience, regulators in a number of jurisdictions lack knowledge of Islamic Finance principles and practices. We were very impressed with the existing knowledge of the CMDA and training events organised in the Maldives in the field of Islamic Finance.

The CMDA has issued a number of regulations concerning Islamic Finance such as the regulation of Shariah Advisors and Shariah screening methodology, which is in some respects more advanced than the framework in many countries with Muslim majority populations.

Although much remains to be done to develop an Islamic capital market, the existing regulatory framework and the understanding of Islamic Finance at the CMDA is very supportive of this.

What are the main findings of your research in the Maldives? Do you think there is scope for a Sukuk Market in the Maldives?

The regulatory framework for a Sukuk Market in the Maldives is already quite developed, particularly now that the CMDA has drafted regulations for Sukuk issuances, Shariah Advisors and Shariah screening.

However, the existing legal framework in the

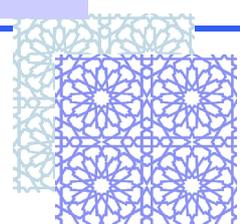
Maldives presents several challenges to the growth of a Sukuk Market. These challenges include the lack of a local SPV law that would recognize the bankruptcy remoteness of issuers in order to protect Sukuk holders. The existing laws regarding land tax, GST and business profit tax may also result in unfair tax treatment for issuers of Sukuk. The introduction of a trusts law in the Maldives would also help clarify the rights of Sukuk holders in issuances of Sukuk.

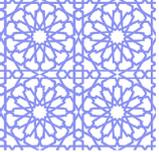
What do you think are the most critical challenges facing the development of a Sukuk Market in the Maldives?

The main challenge for the development of a Sukuk market is issuance of Sukuk by local companies. The proposed Sukuk issuance by HDFC would be a benchmark Sukuk in terms of documentation and pricing, which would hopefully encourage Sukuk issuances by other companies. The other main challenge is liquidity in the Sukuk Market. Based on experiences in other markets, many Sukuk holders hold onto their Sukuk holdings until maturity. The provision of Islamic repo facilities by the MMA would help increase the liquidity of Sukuk for institutional investors.

Do you think there is an ever green future for Islamic Finance in the Maldives and what would be your recommendations to the Maldives?

We have noted continuous progress in the Maldives in the development of an Islamic Finance market, with the issuance of new regulations and various training events. However, the Islamic Finance industry has generally been demand-led, meaning that its growth in the Maldives would mainly depend on growth in the number of Maldivians wishing to obtain financing or make investments on a Shariah compliant basis. We would recommend further initiatives to educate the public on the principles of Islamic Finance and Sukuk. We would also recommend the issuance of Sukuk by the Maldivian government (or the provision of government guarantees in respect of certain Sukuk issuances) in order to set a benchmark, encourage the growth of the industry and provide potential investors with confidence in Sukuk instruments.





EDUCATION & AWARENESS

The most critical challenge facing the development of a full-fledge ICM in the Maldives is lack of awareness among the stakeholders and the general public. As such, it was decided that in the year 2013, starting from the month of February, an awareness workshop on ICM would be held once in every month.

Details of the Dissemination Workshops of “Sukuk Market Development” Project and monthly awareness programs conducted during the quarter are as follows;

DISSEMINATION WORKSHOP OF “SUKUK MARKET DEVELOPMENT” PROJECT

The Consultants from Simmons & Simmons conducted the dissemination workshops of “Sukuk Market Development Project” on 10th and 11th March 2013. The target audience of the workshop was the stakeholders and the staff of the Authority.

ICM MONTHLY AWARENESS WORKSHOPS

The ICM workshop for the month of February was held on 28th February 2013 and workshop for the month of March was held on 16th March 2013. Both of these Workshops were held at Islamic Centre, Male’, Maldives.

The contents of the workshop included the overview of Islamic finance industry with basics of Islamic Finance, the products of Islamic Finance and the specific challenges facing the development of Islamic Finance in the Maldives.



Participants of the Islamic Capital Market Awareness Workshop held on 28th February 2013



Participants of the Islamic Capital Market Awareness Workshop held on 16th March 2013

ISLAMIC CAPITAL MARKET WORKSHOP AT ADDU CITY

A public lecture on Islamic Finance and an ICM Training Workshop was held on 9th-10th March 2013. This event was organized with the cooperation of Ministry of Islamic Affairs & Noorulislam. Seventy two participants were awarded certificates in the ICM Training Workshop.

AWARENESS WORKSHOP FOR MEDIA

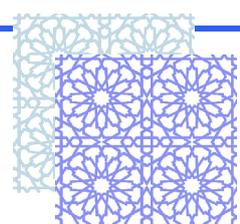
A one-day training workshop on ICM was conducted for the media officials on 17th March 2013. This event was organized with the cooperation from the Ministry of Islamic Affairs and the Maldives Media Council.

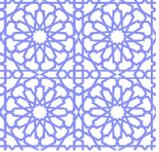


Participants of the Islamic Capital Market Training Workshop for Media held on 17th March 2013

WORKSHOP ON ICM & PENSION

The Workshop organized with the cooperation of Judicial Administration was held on 23rd February 2013. The Afternoon session of the workshop was dedicated to discussions on ICM basics.





ISLAMIC FINANCE TRAINING WORKSHOP FOR RELIGIOUS SCHOLARS

A one-day workshop on Islamic Finance for the religious scholars was conducted on 2nd March 2013. This event was organized with the cooperation from the Ministry of Islamic Affairs and Maldives Islamic Bank Pvt. Ltd. The chief guest for the workshop was the Chairman of the Authority Mr. Ashraf Abdul Raheem. In his opening speech, the chairman thanked the Ministry of Islamic Affairs for their continues support in developments of Islamic Finance & ICM in the Maldives.

PRESENTATION TO DHIGGARU SCHOOL

Presentation on ICM was delivered to the students of Dhiggaru School on 25th March 2013. The presentation enhanced the knowledge of the students on Islamic Finance especially on the role of the Authority to develop a full-fledge ICM in the Maldives.



Participants of the presentation from Dhiggaru School with CMDA Officials

ISLAMIC FINANCE BOOK

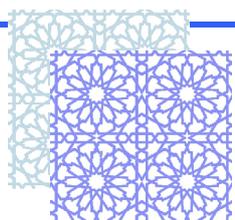
During the quarter, a book on “Fundamentals of Islamic Finance” was compiled by the Head of Islamic Finance Uza. Aishath Muneeza. The book will be made available at the forthcoming Islamic Fair in April 2013. The Authority has plans to publish similar books and resource materials in Dhivehi for the use of ICM education and awareness programs.



The book on “Fundamentals of Islamic Finance”

LATEST DEVELOPMENTS OF ISLAMIC FINANCE IN THE MALDIVES

- Ministry of Finance & Treasury has entered into a “Wakalah bil istithmar” arrangement with Maldives Islamic Bank Pvt. Ltd to resolve the liquidity management problems faced by the Maldives Islamic Bank Pvt. Ltd. This is an initiative by the MMA.
- Ministry of Islamic Affairs and Ministry of Finance & Treasury is working towards the establishment of Maldives Hajj Corporation, a hajj fund management and service providing company that will protect the savings of people who intend to perform hajj and maintain the quality of hajj services. CMDA is assisting the venture.
- Allied Insurance Maldives Pvt. Ltd has announced at “Maalee Rey 2013” - (financial night) organized by the MMA that it has received approval from the Central Bank to commence Takaful business.
- Maldives Islamic Bank Pvt. Ltd has announced that they are planning to open a branch at Addu City. This would be the first time ever in which Islamic banking services would be provided outside the capital city of the Maldives.
- During the quarter ATM declared a dividend of 7.5 percent. The dividend will be finalized in the forthcoming Annual General Meeting.



INTERNATIONAL EVENTS

Islamic Finance News Forum Bangladesh

The Head of Islamic Finance, Uza. Aishath Muneeza spoke as a panelist at Islamic Finance News Forum Bangladesh, an event organized by Redmoney, on 5th February 2013, Dhaka, Bangladesh. Uza. Aishath Muneeza emphasized on the importance of a legal and Shariah framework in developing an Islamic Finance industry.



Uza. Aishath Muneeza at the Islamic Finance News Forum Bangladesh,

ASEAN Capital Market Forum

The Head of Islamic Finance, Uza. Aishath Muneeza spoke about the developments of ICM in the Maldives at ASEAN Capital Market Forum, organized by Asian Development Bank & Securities Commission, Malaysia, from 15th-16th January 2013, at Securities Commission, Kuala Lumpur, Malaysia.

The objective of the forum was to assess the value proposition for ICM development and cooperation in the region, and to discuss key issues and challenges relating to regulatory, operational and Shariah matters in the region.

The forum provided a platform for the Authority to highlight the ICM developments in the Maldives and the importance of regional coordination of the market development efforts in the region.

Upcoming Events

- Register for the Monthly Awareness Workshop to be held on 11th April 2013.
- Visit the Islamic Fair on 26th to 28th April 2013.

SUKUK AL MUDHARABAH

Returns for Sukukholders from a Sukuk al Mudharabah are generated by an underlying business managed by a Mudarib.

The principal steps for a Sukuk al Mudharabah are as follows:

- (1) The Issuer issues Sukuk certificates to Sukukholders.
- (2) Sukukholder purchases the Sukuk certificates from the issuer.
- (3) Issuer is the Mudharib and the Sukukholders are collectively known as Rab-al-mal.
- (4) On each agreed distribution date, the profits from the Mudharabah are shared between the Issuer and the Sukukholders in agreed percentages based on their respective capital contributions.
- (5) At the end of the maturity date Sukuk Mudharabah comes to an end.

INCENTIVES

Possible tax incentives to encourage development of Sukuk Market include:

- The ability of an Issuer/Originator to deduct the costs of listing a Sukuk from its taxable profits.
- Full or partial relief from income tax (after enactment of the Income Tax Bill) for a limited period for Sukuk holders that invest in listed Sukuk.
- Full or partial relief from business profit tax for a limited time for advisors, arrangers or underwriters etc. in respect of income derived from advising, arranging or underwriting etc. in respect of a listed Sukuk issuance.