



***Realising the Potential of  
On-Exchange Islamic Products***

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*Executive Vice President*  
*November 17<sup>th</sup>, 2015*

# Outline

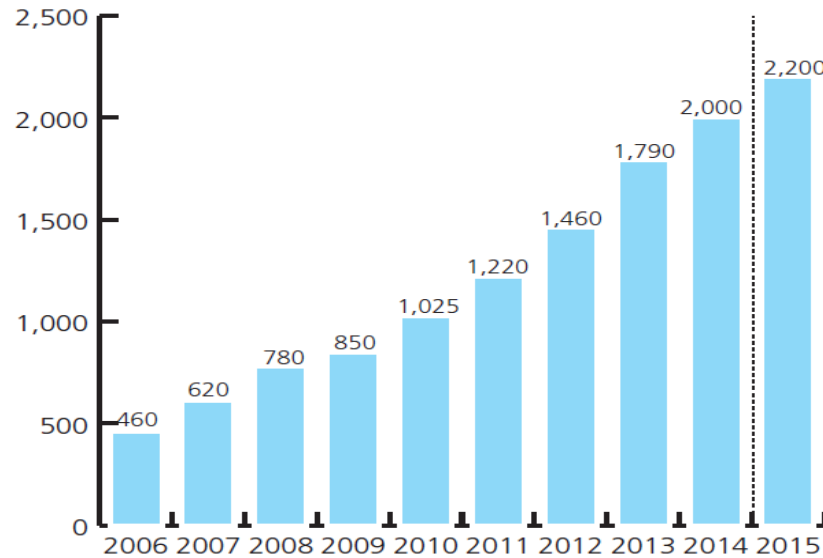
Global Outlook to On-Exchange Islamic Finance Products

Experience of Turkey

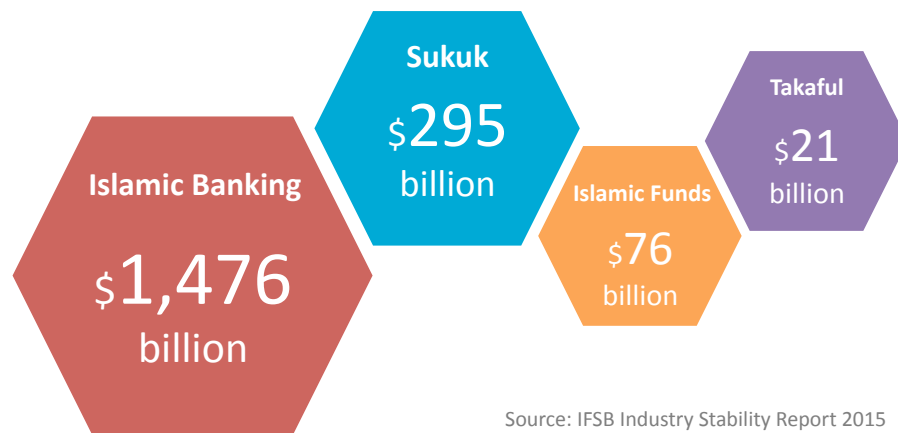
Vision of Borsa İstanbul

# Global Outlook

Global Assets of Islamic Finance (USD billion)

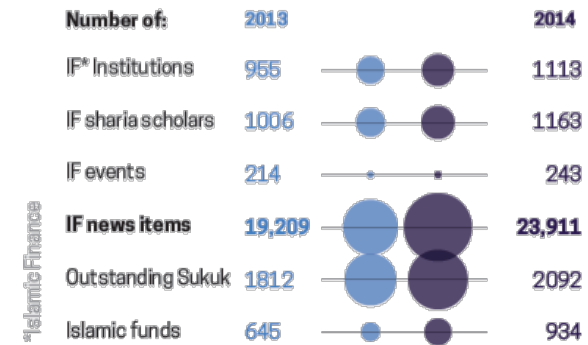


Source: TheCityUK



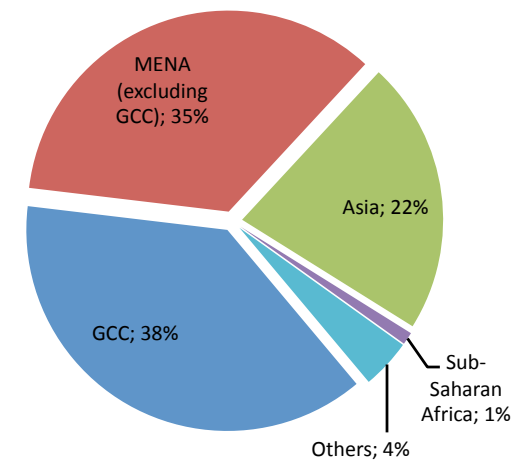
Source: IFSB Industry Stability Report 2015

Select Growth Indicators



Source: Reuters

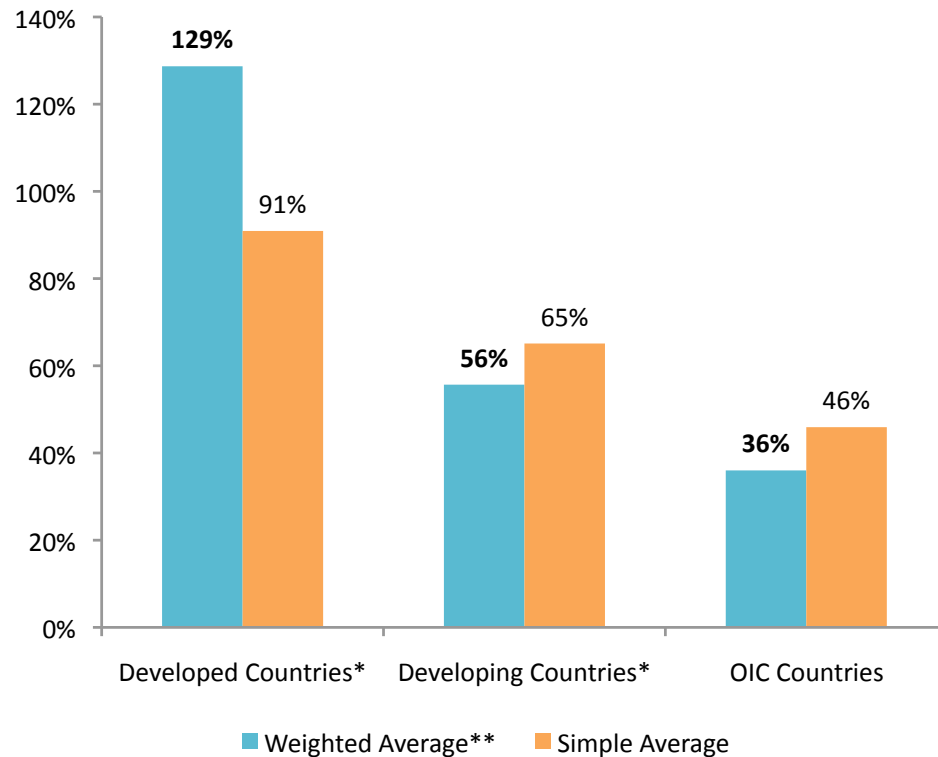
Islamic Finance by Region



Source: TheCityUK estimates based on IFSB Industry Stability Report 2015

# Capital Markets

Market Cap / GDP (End of 2014)

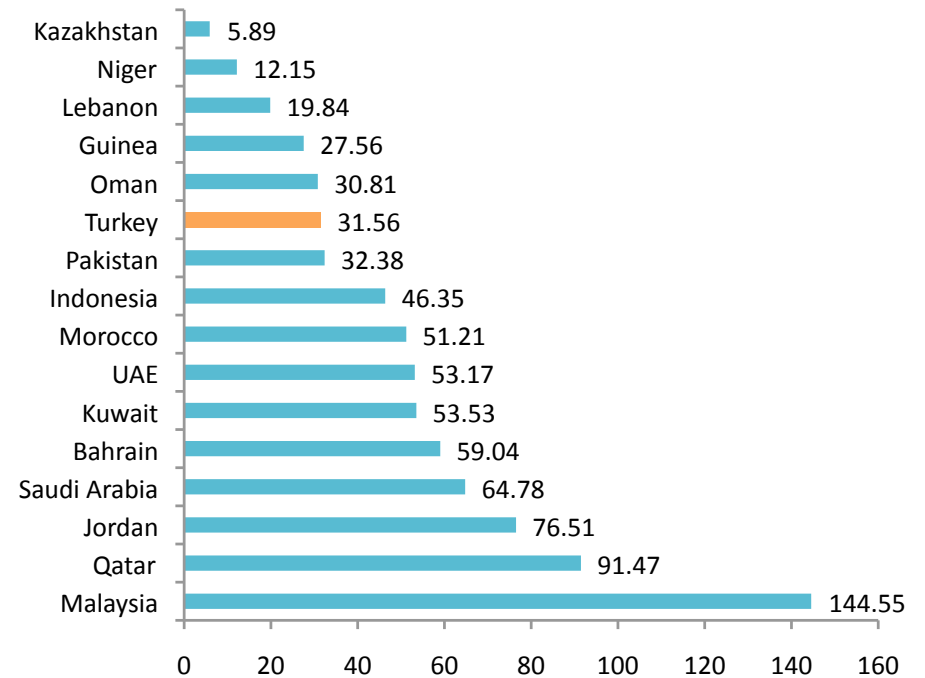


Source: WB, OIC Exchange Forum Survey, WFE

\* classified by IMF

\*\* based on GDP

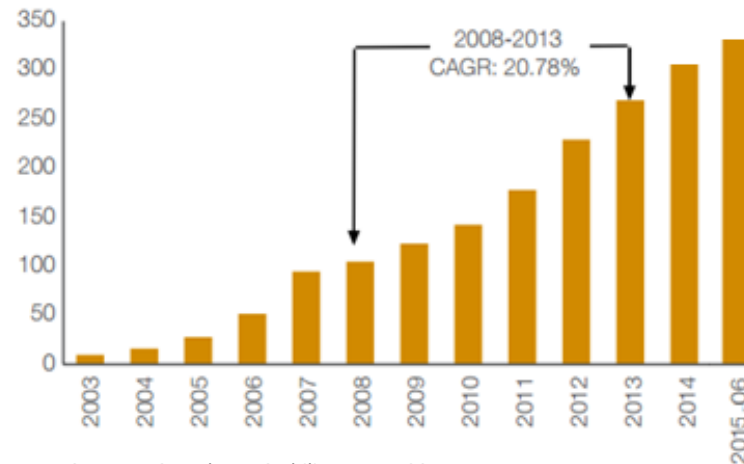
Market Cap/GDP (End of 2014)



Source: Bloomberg

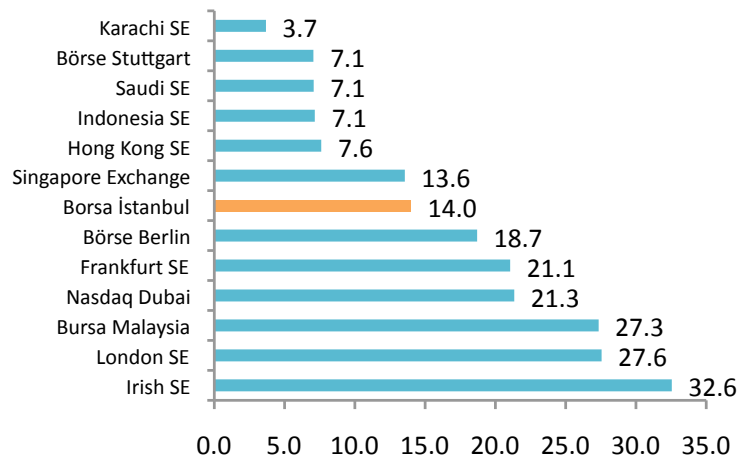
# Sukuk Issuances and Listings

Sukuk Outstanding Value (USD billion)



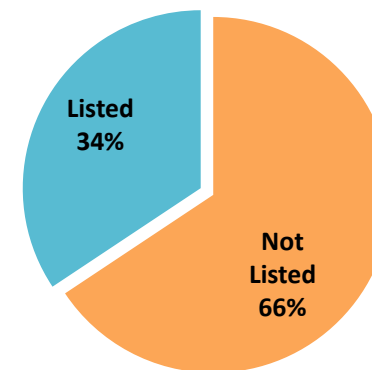
Source: IFSB Industry Stability Report 2015, Zawya

Breakdown of Global Sukuk Listings by Stock Exchange Location (USD Billion, end of 2014)



Sources: Bloomberg, KFH Research

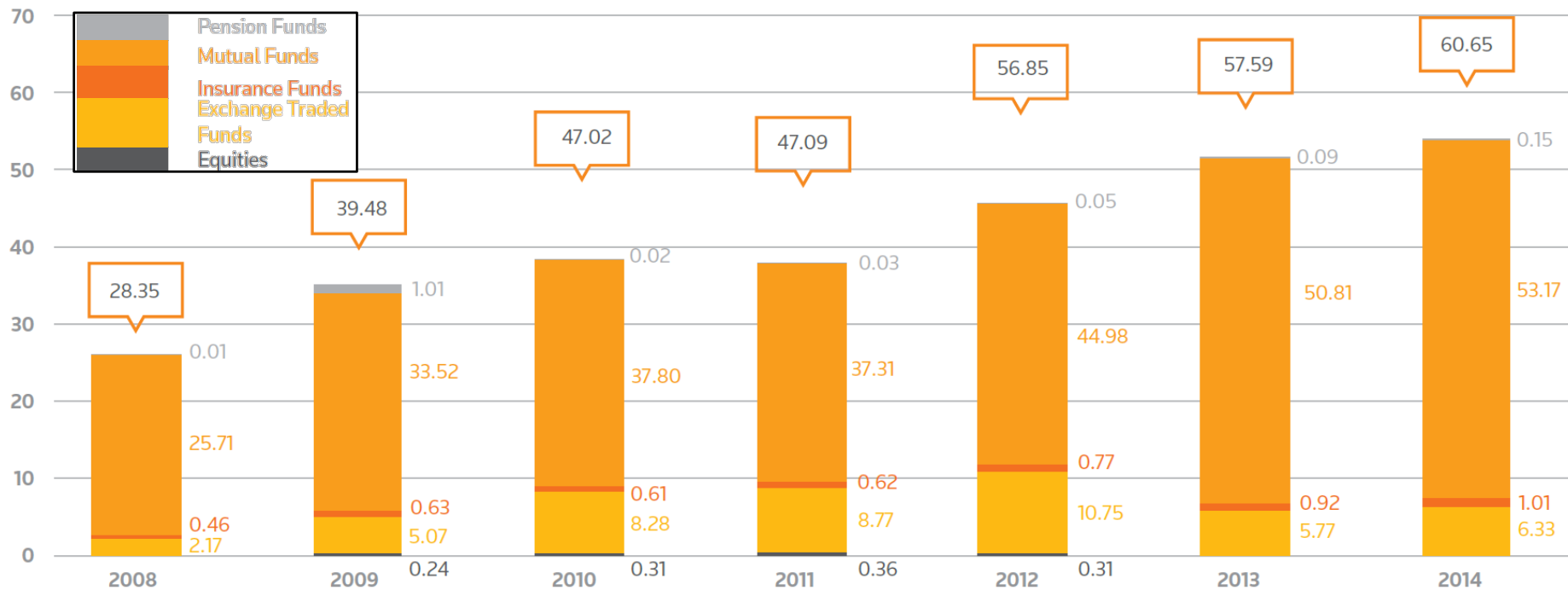
Global Sukuk Listings (2014)



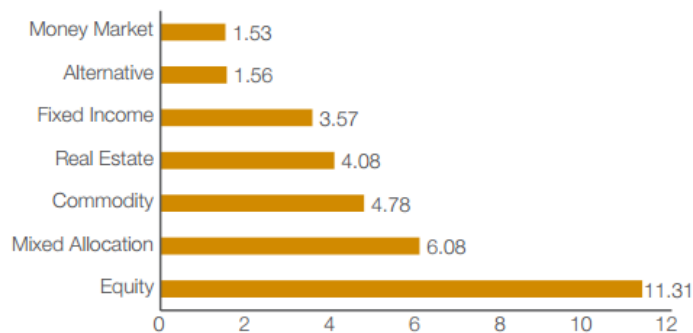
Source: Bloomberg, KFH Research

# Islamic Funds Growing Slowly

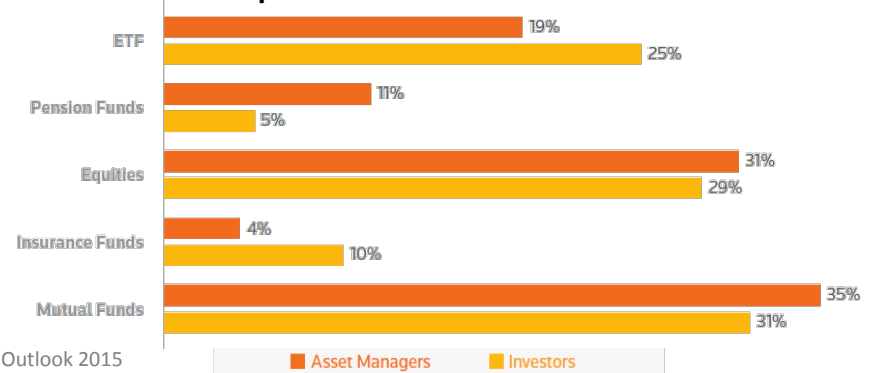
AUM of Global Islamic Funds Outstanding, Breakdown By Universe (2008 – 2014, USD billion)



Returns of Islamic Funds by Asset Type (3Q14)



Survey: What type of funds vehicle would you prefer the most or expect to use in 2015 and 2016?



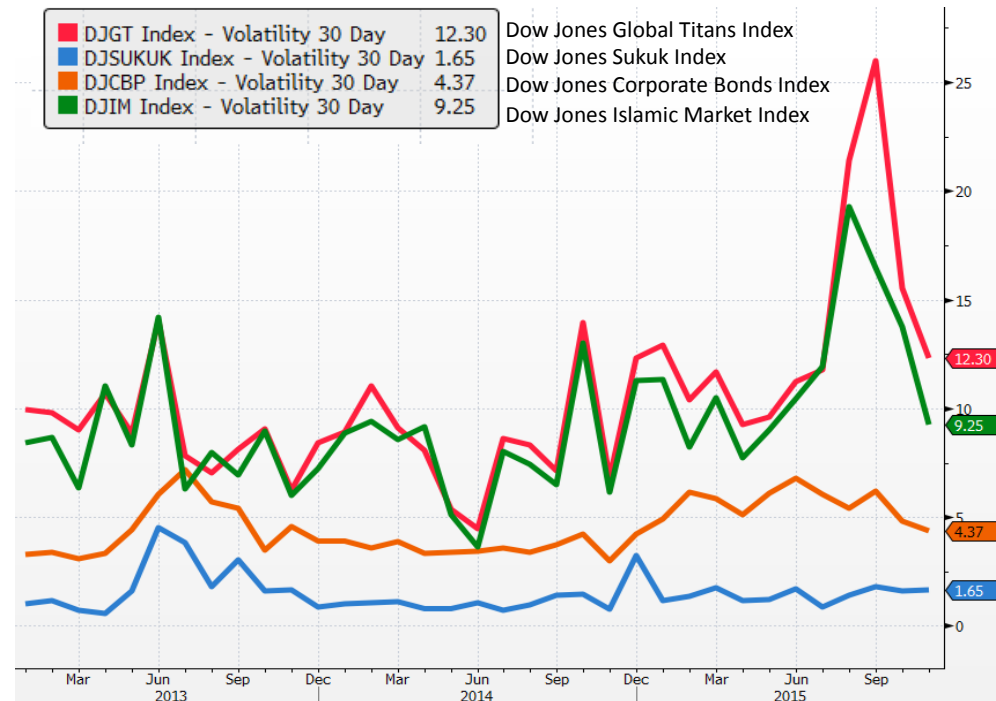
Sources: IFSB Industry Stability Report 2015, Thomson Reuters Global Islamic Asset Management Outlook 2015

# ETFs: A Niche Area for Growth

- ETFs, index-tracking passive funds, manage **\$2.76 trillion** in assets globally, up from \$425 billion in 2005, and already account for about a quarter of all activity in the US stock market.
- Islamic ETF products are not yet in large supply; however, interest is picking up.
- As of the end of 2014, **27** Islamic ETFs around the world were valued at more than **\$6 billion**, all below \$100 million in asset value individually.
- 97% of the assets invested in precious metals, 3% in equities domiciled mostly in Ireland, Luxembourg, Malaysia and the US

	ADX	ASE	BHB	BIST	BM	BYM	BYMT	CSE (B)	CSE (M)	DFM	DSE	EGX	IDX	IFB	KASE	KSEL	LSE	MSE	MSM	NSE	PEX	QSE	SGBV	Tadawul	TSE
Shares	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Securitized Derivatives				•	•									•											•
ETFs	•			•	•								•	•						•				•	•
Investment Funds			•	•	•			•			•	•			•				•	•				•	
Other Products														•											•

Volatility of the Indices (30D)



Sources: IFSB Industry Stability Report 2015, Zawya, Bloomberg

# Islamic Finance is Growing in Turkey

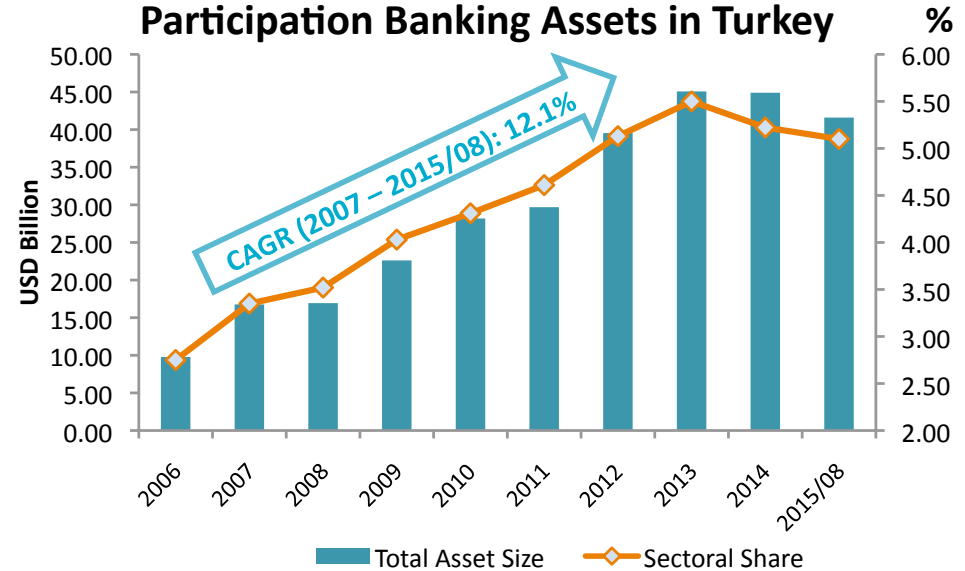
Until year 2023, one of the top priorities of the policy makers is to increase Islamic financial market's share **from 5.1% → to 15%**

Structuring **metal market** and designing this market suitable to the Islamic finance requirements will allow participation banks to make their transactions through Borsa İstanbul

Currently **4 private and 1 state owned** participation banks are operating in Turkey

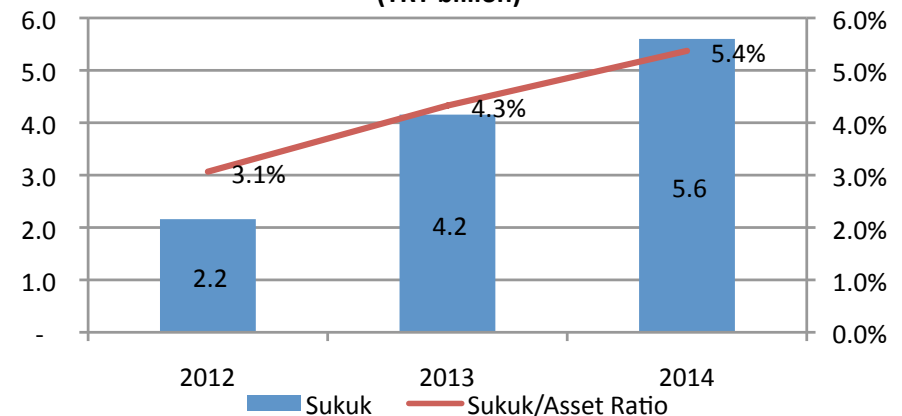
**2 more state owned participation banks** are on in the process of being launched

## Participation Banking Assets in Turkey



CAGR of the banking industry in Turkey is 6.2% for the same period

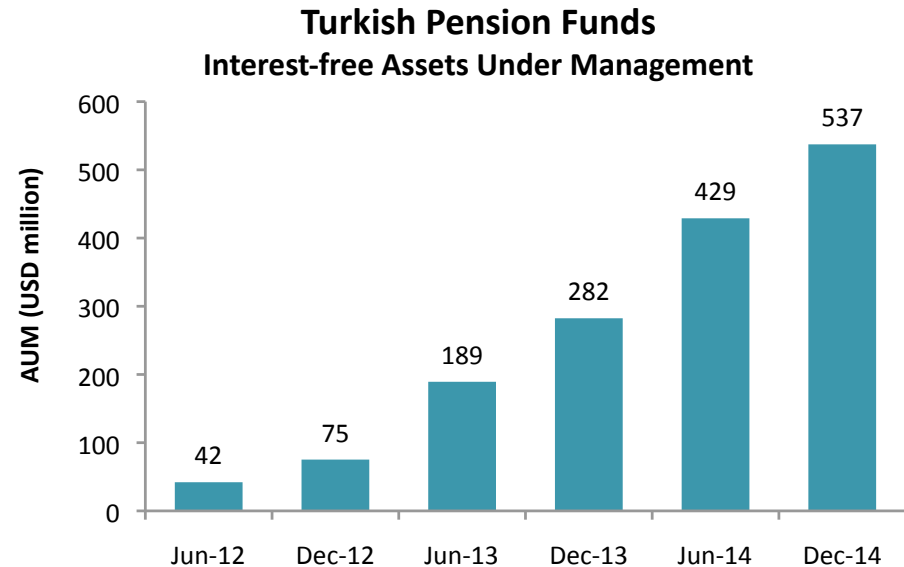
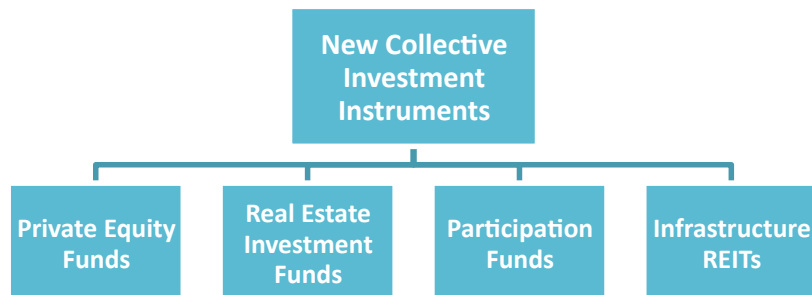
## Sukuk Outstanding Value in Participation Banks' Assets (TRY billion)



Source: Participation Banks Association of Turkey



# Islamic Finance is Growing in Turkey



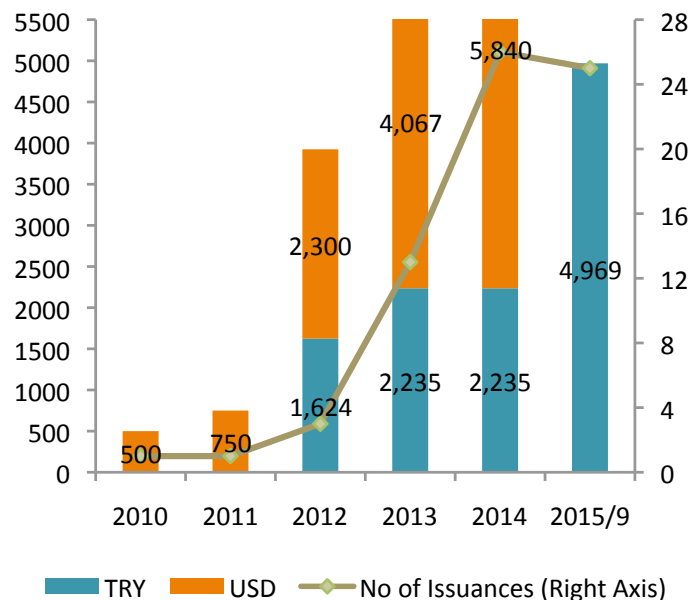
## Regulations in Collective Investment

- Participation Fund can invest in
  - Lease certificates
  - Participation bank deposits
  - Equity
  - Gold and other precious metals
  - Interest free money and capital market instruments
- 10% portfolio concentration limitation increased to 25% for lease certificates
- Private Equity Funds, Real Estate Investment Funds, and Infrastructure REITs are exempt from taxes

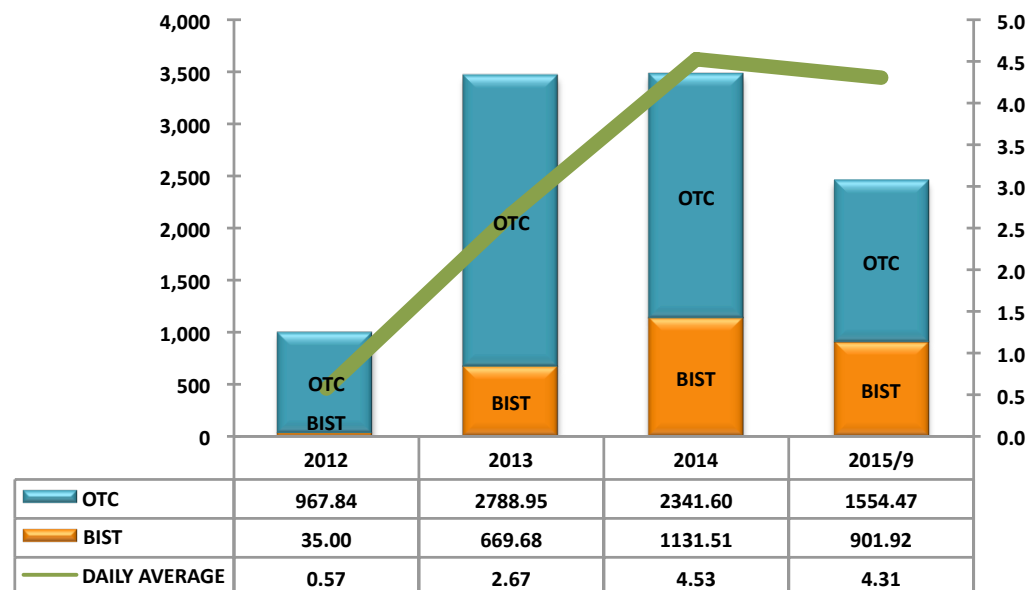
- Recent amendments to the governing laws of the pension system added gold and sukuk into the spectrum of instruments that can be invested by pension funds.
- The rapid increase suggests a substantial potential for growth. **Total assets value of Turkish pension funds is US\$ 15 billion.**

# Sukuk Issuances in Turkey

Sukuk Issuance in Turkey by Currency (USD million)



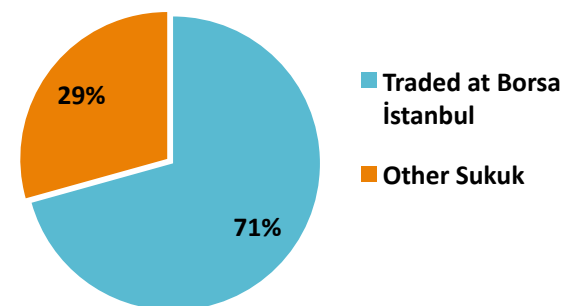
Total and Average Trading Values in Sukuk (TRY million)



- By new Capital Market Law, **all Sukuk types** can be traded at Borsa İstanbul
- Regulatory support: **Tax exemptions**
  - 1) Special purpose vehicle (SPV) is exempt from corporate tax
  - 2) Leasing Certificates are exempt from stamp duty tax
  - 3) 0% withholding tax for Sukuk issuances over 5 years maturity

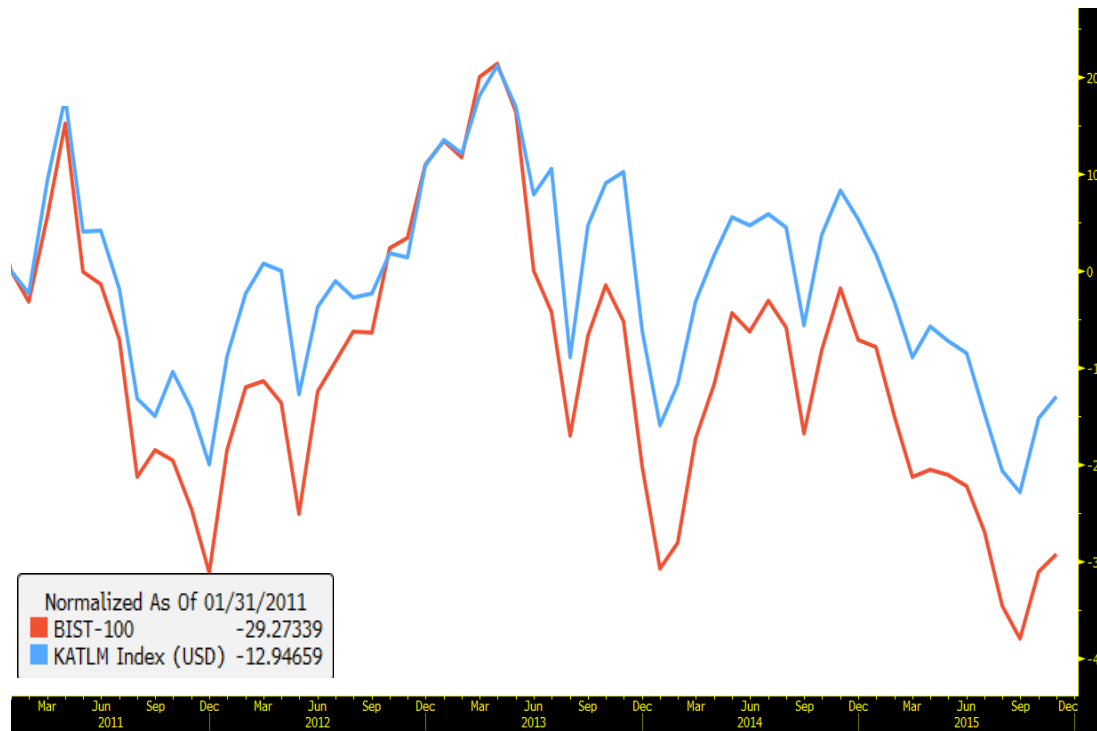
**IDB Sukuk trading has started at Borsa İstanbul:** 6 different non-interest bearing notes (Sukuk) of U.S. \$ 6,05 billion issued by IDB Trust Services Limited have started trading at Borsa İstanbul on November 28th, 2014.

All Sukuk Issuances by IDB



# Islamic Indices, ETFs, and Other Products

Comparison of Index Returns



## Indices

S&P-OIC COMCEC 50  
Shariah Index

DJIM Turkey

Participation Index (KATLM)  
Participation 50 Index (KAT50)  
Participation Model Portfolio Index (KATMP)

## ETFs

ETFs on Commodities

ETFs on Indices

İstanbul Gold ETF  
İstanbul Silver ETF  
Kuveyt Turk Gold ETF  
Kuveyt Turk Silver ETF

Participation ETF

Risk Management  
Products

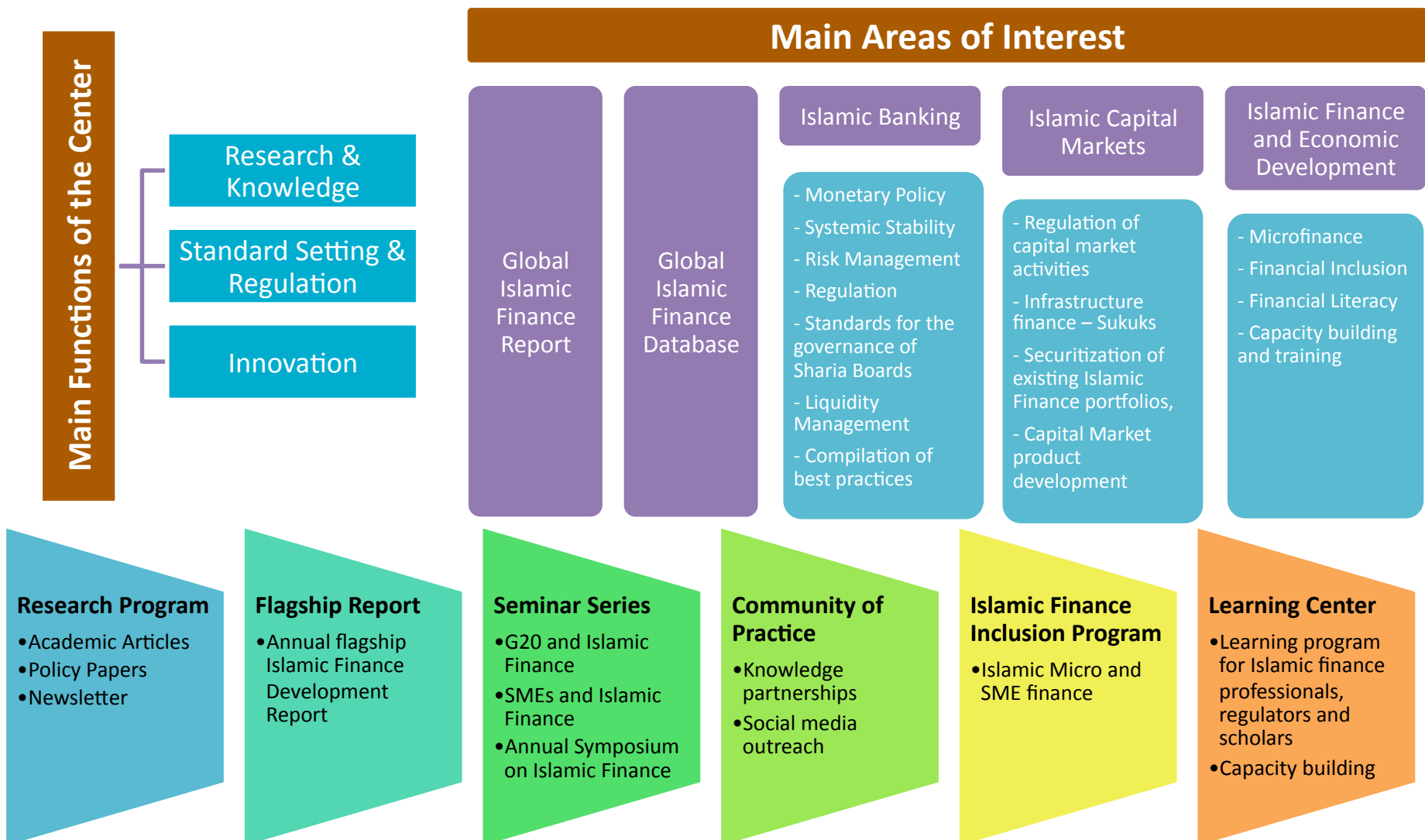
Precious Metals and  
Diamond Markets

Base Load Electricity  
Futures, Steel Scrap  
Futures

Gold, Silver, Platinum,  
Palladium, Diamond,  
and Precious Stones

# What Borsa İstanbul has done so far in Islamic Finance?

World Bank Global Islamic Finance Development Center (launched in October 2013)



# Food for Thought

- **Harmonizing Capital Market Regulations to cross list exchange-traded products**
- **Establishing a Gold Exchange among the OIC Member States**
- **Supporting the Entrepreneurship (Start-ups) and SMEs in Stock Exchanges ([www.bistprivatemarket.com](http://www.bistprivatemarket.com))**
- **Increasing Training and Investor Awareness to stimulate demand for on-exchange products**



**BORSA  
İSTANBUL**

*Benchmark for Investment*