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POSSIBLE METHODS FOR ESTABLISHING THE ISLAMIC STOCK EXCHANGE AND CLEARING UNION

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In the light of the dominance of the American, Asian/Pacific and European markets over the world financial markets, there is a need for the OIC community to establish its own stock exchange and securities alliance to be able to compete with those giants. Since such an alliance requires a high degree of cooperation, coordination and integration between its constituent members, it is advisable that it start in a relatively loose form and move gradually to its final envisaged structure of a strict federation.

1. INTRODUCTION

As they do in the world economy, the three powerful regions of today's world – the American markets, the markets of the Asian/Pacific rim region, and Europe – dominate the world's financial markets. In essential respects, the three regions carry roughly the same weight. For others to have a foothold in this increasingly integrated and concentrated market, they will have to form their own alliances and seek to co-operate with the three dominant giants.

This report surveys the experience and structure of current international stock exchange and securities alliances with the purpose of drawing lessons to benefit the proposed OIC alliance. The samples of institutions considered are the most reputable and influential worldwide. They also represent a real cross-section of the current spectrum of institutions working in the world today. Thus, together, they represent an abstract of contemporary human experience in this field.

The report is structured as follows: Section two includes a general background. Section three shows the concepts, the logic and the functions of stock exchange alliances. Section four contains a brief description of the selected representative institutions and their structures and operation

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procedures. Section 5 comprises the proposed alliance model for the OIC Stock Exchange. The paper proposes the formula of a federation for OIC co-operation in this field. The federation is to start in a relatively loose form and to move gradually to its final envisaged structure of a strict federation. The gradual process of moving towards a stricter alliance should not exceed ten years and must commence within the first 3-5 years.

The statistical annex[1], which consists of seven tables, is included only to reflect the state of development of the main OIC markets vis-à-vis Developing, Emerging and Developed Markets.

2. GENERAL BACKGROUND

Globalisation and the rapid integration of world markets have been most evident in world capital and financial markets. They have also been the main forces driving the process of change in these markets. As a result, present-day capital markets are more integrated and inter-linked than they have ever been before. The universal phenomenon of financial contagion stands witness to and is living proof of the extent and potency of these forces. Since their inception, financial and capital markets have successfully evolved and adapted to change. The co-operation, harmonisation and recent formation of coalitions among stock exchange markets (exchanges hereafter) have been part and parcel of this evolutionary process.

To cope with the recent global transformation, financial and capital markets have been engaged in a rapid process of change to secure and consolidate their positions and to face up to the challenge posed by globalisation. Stock exchanges too, as integral institutions in international finance, have been going through a similar process of adjustment. The different forms of stock market alliances that have been taking place recently are among these adjustments. The alliances take the forms of mergers and take-overs in some instances, and unions and federations in others. The form, rigour, speed and volume of change invariably reflect the level of advancement and organisation of the stock markets themselves beside the state of development of the host economies.

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[1] Adapted from the International Finance Corporation (IFC) Emerging Stock Market Factbook 1999.

Exchanges and clearing houses have been among the basic and central institutions of capital and financial markets which also perform their most central role and functions. The two institutions were created during the last century as vehicles and intermediary bodies through which savers and investors meet and interact. In addition to their conventional objectives, contemporary exchanges perform many more functions than the ones for which they were originally contrived.

Exchanges are specialised, centralised and organised markets designed purposely for the trading of the financial securities listed within them. They may be of two forms, incorporated institutions or voluntary associations of members. In either case, however, they include a legal framework, a constitution, a charter, by-laws, and rules and regulations that govern their membership, listing, trading and other organisational and operational matters. Exchanges do not trade in the listed securities; they merely provide the facility for trading. They are institutionally justified by their function of facilitating marketability in their listed securities. This is done by providing trading facilities and publicity to volume and prices, and by requiring the corporations whose shares are listed to observe proper standards of accounting and reporting, thus enhancing public confidence in the market and in its listed securities (Glenn 1984, p.893).

Stock Clearing Establishments or Houses (SCHs) are corporations often formed by members of a stock exchange to provide them with facilities of clearing transactions in securities, including netting out contracts between members, delivering securities and handling payment for them (Walmsley 1979, p.234). All leading and fully-developed exchanges in the world have their own clearing houses and mechanisms. However, some exchange markets do not have their own SCHs and, thus, use other leading markets SCHs and mechanisms as standards and vehicles for their operations.

The developments of today's world presented exchanges with new challenges but also with great opportunities. Some of these are described below[2]:

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[2] Federation of European Securities Exchanges (FESE) Website, Overview document, pp.1-4.

- ***The globalisation of financial business***

Previously, when issuers and investors met in a domestic forum, the process of converting savings into productive investment could be carried out under conditions which were not difficult to supervise. Today, issuers carry on business in foreign countries, and often wish to issue securities abroad. Investors seek opportunities to maximise returns and spread risks on their capital, and look to foreign markets. The challenge for exchanges is to meet the demands of multinational issuers and international investors. The first creates the need for good information from non-domestic issuers. The second demands facilities not only for executing trades, but also for speed and safety in settling them. Trading on the stock exchange is, therefore, closely linked to the international settlement and payment systems; an important problem is the way in which access to these services is to be provided to foreign issuers and investors.

- ***The technological revolution***

Nowadays, information can be flashed simultaneously to every part of the world. This includes stock exchange prices which were classified information previously available only to the members of the exchange. Accordingly, the exchange is faced with stiffer competition than was ever the case in the past. Efficiency, low cost, fairness, transparency and safety became the prerequisites for attracting share trading.

- ***The institutionalisation of the market***

In many countries, the savings of individuals are increasingly being placed in collective investment vehicles—mutual funds, pension funds and insurance companies. These financial institutions normally wish to deal in a much larger size than the private saver and, hence, impose strains upon the liquidity of the market. Ironically, the institutionalisation of the market leads to a problem of financing small and medium size enterprises. This happens because institutions tend to invest in the larger companies, leaving smaller ones dependent upon other sources of financing, which often prove to be more costly.

3. STOCK EXCHANGE ALLIANCES: CONCEPTS AND FUNCTIONS

Stock exchange alliances are associations, federations or unions of stock exchange markets formed with the main purpose of promoting business through co-operation, harmonisation, and integration. Contemporary stock exchange alliances range from loose representative bodies to fully integrated ones. Between these two extremes lies a series of other combinations with varying degrees of cohesion and rigour. Often the names these institutions carry–viz., Association, Federation, and Union–are indicative of the strength of their institutional relationship.

The most essential function of exchanges is, as it has always been, to offer to the owners of enterprises the opportunity to raise new capital and, hence, build substantial public companies. The capital of enterprises represents the savings of individuals. Exchanges provide the saver with the means of investing his or her savings whilst retaining their liquidity. Savings of individuals are precious, and it is necessary that they be protected. Exchanges, therefore, include in their functions the publication of timely information from issuers so that investors can be properly informed about the enterprises whose securities they invest in and the process whereby prices for those securities are struck. It is essential, therefore, both for fairness and for economic efficiency, that all exchange functions, including the setting of stock prices, are determined in a transparent way. Therefore, the central functions of stock exchange alliances revolve around adapting stock exchange conventional roles to the challenges posed by technology and the globalisation and institutionalisation of markets. In this sense, the alliances represent an evolutionary step in the history of exchanges.

Stock Markets' alliances differ in terms of their institutional form and in the strength and rigour of their level of integration. These differences are mostly a reflection of the differences between the allying markets and the countries in which they are based. It is generally the case that where the markets and countries in which they are based are highly integrated or prone to integration, their market alliances are also more integrated. In the next section, we give in detail some recent examples of the different forms of stock exchange alliances. The detailed account of the most important existing exchange alliances is to serve as a model for the Islamic Stock Exchange Federation or Union.

4. MODERN STOCK EXCHANGE ALLIANCES

4.1. The International Federation of Stock Exchanges (FIBV) [3]

4.1.1. A brief history

The need for international co-operation amongst exchanges was first felt in the 1930s. The International Chamber of Commerce, based in Paris, took the initiative to create an International Bureau of Stock Exchanges, which existed until World War II. After the War, it was not until 1957 that the first major steps towards international co-operation between exchanges took place, and in May of that year, representatives of several European bourses met in Paris. Four years of informal co-operation followed, after which the participants chose to institutionalise this work in the form of a federation. This was done in London in 1961. Since then, the FIBV has grown constantly. Today, its membership encompasses 55 exchanges from all over the world. FIBV members together account for over 97% of world stock market capitalisation, and most of its exchange-traded futures, options, listed investment funds, and bonds. There are 9 more affiliate exchanges and 40 bourses which are corresponding emerging markets.

Since its foundation, the FIBV has regularly held committee meetings, general assemblies, and conferences. In recent years, it has organised committee meetings and specialised workshops for its members to transfer know-how and to share expertise. As an industry trade organisation, the FIBV has discussed virtually every aspect of the securities business, be it technical, commercial, legal or economic. Over the past four decades, studies have been published on such issues as self-regulation, enforcement, trading halts, securities business conduct, and others.

4.1.2. FIBV purpose and goals

La Fédération Internationale des Bourses des Valeurs (FIBV) is the trade organisation for regulated securities and derivative markets and related clearing houses worldwide. The FIBV is an international organisation comprised of the world's leading exchanges that are committed to the

[3] www.fibv.com

highest levels of market quality. It provides a forum for communication, analysis and debate among members. Its purpose is to facilitate the representation and development of organised and regulated markets, and to meet the needs of evolving capital markets in the best interest of their users.

The label "Member of FIBV" identifies each market as having prescribed business standards, recognised as such by members, owners, and users of exchanges, as well as by regulators and supervisory bodies. Organised and regulated financial markets do the best economic job of allocating capital on the largest possible scale. From capturing orders to trade or providing access for new company capital offerings and then carrying on through trading, reporting, settlement, and custody, FIBV member markets have developed sound business practices offering investor protection and efficient price discovery. New technologies and competition stimulate FIBV members to make their services more efficient, cost-effective, user-friendly and reliable. Sharing of business experience and knowledge among FIBV member exchanges is critical to the development of the industry, even as financial market operators offer services in an increasingly competitive environment.

The FIBV is a central reference point for the securities industry, and for exchanges themselves, the markets of choice. It offers member exchanges guidance in their business strategies and in the improvement and harmonisation of their management practices. The FIBV also works with public authorities and helps promote increased use of markets. The FIBV's main goals are:

- To demonstrate the role, functioning and integrity of regulated markets;

- To maintain a platform for securities markets professionals to discuss issues of common interest, identify new approaches and solutions which enhance the competitive position of regulated markets, and develop programmes which support stock exchange operations, including research papers, workshops, benchmarking, and best practices;

- To establish harmonised standards for business processes in trading securities, including cross-border trading;

- To deepen the co-operative relationship with supervisory authorities in order to advocate the benefits of stock exchange front-line self-regulation within the total regulatory framework; and

- To support emerging exchanges in their efforts to develop markets which function according to FIBV member standards, thus contributing to global respect for the business practices of a well-run industry.

To achieve these goals, in addition to the activities mentioned earlier, the FIBV publishes a monthly newsletter, statistics bulletins and other publications on member exchanges. It also maintains statistical and information databases to keep historical records on members.

4.2. Federation of European Securities Exchanges (FESE) [4]

Europe constitutes one of the most stable regions of the world. The European countries are amongst the wealthiest and economically most vibrant. The attractions of Europe for capital seeking profitable employment remain potent. High savings rates ensure that Europe remains at the same time a significant source of capital for other parts of the world.

The Federation of European Securities Exchanges (FESE), formerly called the Federation of European Stock Exchanges, is the Brussels-based Association of Europe's Investment Service Directive (ISD) authorised stock exchanges, futures and options markets and clearing organisations. The Federation represents the voice of Europe's regulated and supervised market operators towards the authorities, especially at the EU level. The Federation's membership is open to all regulated and supervised market organisations in the EU, Norway, Iceland, and Switzerland as well as in the countries seeking accession to the European Union. The Federation is, therefore, also open to new market organisations that are subject to EU financial securities market legislation.

The new FESE represents a leap forward over its predecessor, the Federation of European Stock Exchanges, as it includes also Futures and

[4] Formerly known as Federation of European Stock Exchanges; see www.fese.be and www.fese.org.

Option Markets and Clearing Houses. This new format of the FESE may be the most suitable model for the proposed Islamic federation to follow. However, it is at a rather advanced stage, which may require a great deal of co-operation and harmonisation. It took Europe the best of the last two decades to reach this stage, and there is still some way ahead before Europe reaches its intended level of co-operation in this field. Accordingly, it may be advisable for the proposed Islamic Union to follow a staged process similar to that of Europe, starting first with a looser federation of Islamic stock exchanges.

4.2.1. FESE objectives and goals

The Federation exists to reflect and represent the common interests of European exchanges as regulated securities markets. Its objective, broadly stated, is to contribute in the field of securities and financial markets to the attainment of the aims of the Treaty of Rome. It seeks to promote the development of securities markets in Europe by co-operating in the areas of trading, clearing, settlement and deposit of securities, and in regulatory matters. The Federation co-operates with other international organisations, in particular with the institutions of the European Union, and acts as a representative voice of its member exchanges in matters of concern to the European securities industry. In so doing, the Federation furthers the gradual process of integration of the European capital markets.

The Federation serves first as a forum in which exchanges discuss the needs of market users and look for agreement as to how those needs are to be met. The statutes of the Federation envisage not simply debate, but also joint action to create the infrastructures needed for efficient markets in Europe. In these discussions and activities, all member exchanges contribute to finding common solutions.

A continuing role for the Federation is to be a representative voice of the member exchanges in relation to the European Union institutions—principally the European Commission. Moreover, the Federation promotes a number of projects designed to further the effectiveness of the equity markets in Europe. These include:

- *The implementation of the EU Investment Services Directive*
  This directive, which confers the "European passport" on properly authorised investment firms, brings about major changes in national

securities regulation. The exchanges will be an important part of the regulatory machinery after the directive is implemented, and through the Federation, the exchanges are studying the ways in which they can contribute to its effective and consistent implementation.

- *Linkages between exchanges*
  The member exchanges have agreed that the process of integration should be taken forward through bilateral and regional linkages facilitating and enhancing cross-border trading. The Federation provides the forum in which strategies and methodologies can be discussed and agreed.

- *Assistance to emerging markets*
  The newly founded market institutions in the countries of central and Eastern Europe are urgently in need of assistance—technical, legal and professional. The Federation plays a vital role in co-ordinating the provision of such assistance.

- *Economic studies*
  The Federation publishes a monthly review of statistics of stock exchange activity in its member exchanges, which forms the starting point for those who follow European trends. The Federation has taken the lead in forming an institute, the European Capital Markets Institute, which will undertake more extensive studies on the efficiency of the capital markets of Europe.

In the past decade, the European exchanges have undergone a process of transformation. Most have been "deregulated", i.e., freed of the restraints and conditions that were normal for a largely national domestic role. Exchange membership is available to foreign-owned intermediaries, and many securities are multi-listed.

Building on their traditional strengths, the European exchanges now provide markets which function throughout the day, whereas trading used to take place only during a short session or at a single fixing. They also provide order routing for swiftness and sureness of execution at low transaction cost. They provide transparency—but enhanced by the technical possibilities now available. Exchanges have been amongst the most creative users of information technology.

The exchanges have adapted their regulations and dealing procedures to improve the liquidity in their markets. Techniques including market making and block trading and the introduction of inter-dealer brokers have all served to meet the demands for liquidity brought by the institutions. At the same time, the pricing of securities is made on a fair and transparent basis.

The explosion of cross-border trading and investment has brought additional risks into the markets. The exchanges have had, therefore, to refine the handling of orders and the execution of business so that settlement periods are reduced in length and safety of trading and settlement becomes common practice.

Then, recognising their prime role in the provision of capital for industry, many exchanges have paid special attention to the needs of growing enterprises in setting up special market sectors designed to suit the needs of smaller companies.

In a recent press release [5], the FESE:

- Calls for a thorough review of the ISD and proposes a functional approach for the regulation of markets operators. Europe's exchanges demand a level playing field for all market operators.

- Recommends strongly the installation of a Securities Committee and a Regulatory Committee under the ISD and argues that such committees can only be successful when market experts and industry are closely involved in consultation procedures.

- Demands again the opening of US markets for the activities of European securities markets and presses for the immediate opening of a dialogue with US authorities.

- Finds that the organisation of clearing, settlement and depository service provision is not an area for top-down imposition of a structure; these areas should be left to the interplay of market forces.

Priority is given by FESE to a thorough overhaul of the Investment Services Directive, the "Constitution" of securities legislation in Europe. Functional regulation of market operators, a level playing field for all

[5] Brussels, 22nd January 2001.

types of market operators, and effective implementation of the single passport principle for investment firms, issuers, and markets are needed for Europe's financial markets to remain competitive. FESE would see merit in a split-up of the heterogeneous ISD into an investment-firm-related directive and a markets-related one.

Europe's exchanges stand ready to support further efforts to streamline cross-border clearing and settlement in Europe. This area, however, is not seen as one where structure should be imposed by regulators. The interplay of market forces should be allowed to lead to solutions beneficial for investors, intermediaries, and issuers.

4.3. Federation of Euro-Asian Stock Exchanges (FEAS) [6]

The Federation of Euro-Asian Stock Exchanges (FEAS) was established in 1995 on the initiative of the Istanbul Stock Exchange. All twelve founding members are exchanges of emerging markets in Europe and Asia, at different stages of development. Membership is open to exchanges located in Europe and Asia, subject to approval by the General Assembly. Currently, there are 22 member exchanges representing 9,426 traded companies and a market capitalisation of over 129 billion US dollars on an average daily traded value of over 548 million US dollars. Fifty percent of current FEAS membership is from OIC member states.

The mission of FEAS is to create a fair, efficient and transparent market environment, with little or no barriers to trade between its members and their operating regions. The harmonisation of rules and regulations and the adoption of new technologies for trading and settlement by member securities markets facilitate the objectives of FEAS by promoting the development of the member markets and providing cross listing and trading opportunities for securities issued within FEAS member countries.

4.4. The South Asian Federation of Exchanges (SAFE) [7]

The SAFE was launched in January 2000 in Chittagong by nine South Asian exchanges. All securities exchanges in the South Asian region

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[6] www.feas.com.
[7] www.safe-asia.org.

may be eligible for membership. The preamble of the Chittagong Declaration states: “Globalisation has increased the interdependence among nations and simultaneously regional co-operation forums have emerged or are emerging. Therefore, stock exchanges around the world are co-ordinating their various initiatives and forming regional federations on the regional co-operation philosophy. The immediate objectives of such federations are to enhance communication and to standardise operation procedures. Long-term objectives may include cross-border listing”. The Federation is to work on a charter stating its objectives, scope of work, organisational structure and features, and procedure of decision making.

4.4.1. SAFE objectives

- To encourage co-operation among the members in order to promote the development of their respective securities market.
- To work towards common standards, best business practices in members’ securities markets and effective surveillance of international securities transactions.
- To represent the members in related international forums.
- To encourage cross-border listing and trade in the region.
- To co-operate in human resource development and the transfer of technology.
- Other issues of common interest as and when they arise.

4.4.2. Services to the members

Business research

Research is a core requirement of the capital market participants. Cross-border information is the prerequisite for any cross-border operation. The Federation takes the responsibility to gather data from the members and process them into a standardised format so that they are comparable to a desired level.

Information dissemination

The Federation shall publish routinely compiled information on the member countries' capital markets and a qualitative evaluation of the business in the region.

Organisation of conferences

The Federation organises regular conferences and seminars on relevant topics in the regional and world markets. The development of the capital market is a continuous process. To keep pace with the growth, regular exchange of knowledge and views becomes necessary. The Federation acts as a catalyst for the introduction of standardised procedures and for the expansion of the markets.

Human resource development

Member exchanges co-operate to develop their human resources. Executive exchange programmes may be arranged regularly.

Advice

The Federation provides expert advice to the member exchanges in their own and integrated development in light of international modern practices.

4.5. The EURONEXT: Stock Exchange Union [8]

The Euronext stock market, which is the first European exchange, was created by the merger of Amsterdam and Brussels Exchanges and the Paris Bourse. Euronext is the first, and so far the only, pan-European exchange, and builds on the strength of the Amsterdam, Brussels and Paris Exchanges. It has the biggest market capitalisation in Euroland (51% of the total), the biggest commodities exchange in Europe and is the number one exchange for options. It is also a truly international merger with transnational business units, transnational management, and transnational shareholders and members. Its aim is to deliver the best forms of electronic trading to clients,

[8] www.euronext.com.

intermediaries, investors and issuers alike, and to deliver quality and competitive services to its clients. In 2001, Euronext is to replace floor trading with screen trading, and to build a fully-integrated exchange encompassing listing, trading, netting, clearing and settlement. Following the footsteps of its constituting three predecessors, the Euronext is a member of the Federation of European Stock Exchanges (FESE) which is the next candidate example of the present paper. The FESE is the model this paper proposes for the OIC member to follow.

5. THE PROPOSED MODEL FOR OIC STOCK EXCHANGE ALLIANCE

5.1. The current OIC situation

As in the experiences discussed above, the proposed model for the OIC exchange alliances will essentially depend on the state of development in the main OIC markets. A rough picture in this regard is reflected in this paper's statistical annex. The seven tables in the annex reflect the OIC exchanges' state of development vis-à-vis Developing, Emerging and Developed Markets. The criteria used by the International Finance Corporation (IFC) in these comparisons are levels of capitalisation (Table 1), value traded (Table 2), number of listed companies (Table 3), and market turnover ratios (Table 5). According to the first three criteria, Table 4 shows the OIC markets that appear in the top forty markets in the world. Table 5 compares performance worldwide based on markets' turnover ratios. It also shows the top forty performing markets in the world. Some eight OIC markets satisfied this criterion and appeared in this table. Table 6 reflects the world ranks of the OIC main markets by average company size. Table 7, based on the International Finance Corporation Global Composite Index (IFCG)[9], reflects the weights of the main markets in the world distributed by regions. The information on the selected model alliances (Section 4) is acquired from their respective web pages.

5.2. Lessons and insight

From the various existing models discussed previously, the following insights and lessons can be inferred:

[9] For an explanation and development of the IFC indexes, see IFC 1999, pp. ii & iii.

- The proposed OIC alliance may be a full merger or union such as Euronext, a tight federation modelled on FESE or a rather looser federation such as FEAS or SAFE. A third option for the proposed alliance is to create a platform such as the FIBV, which serves only as representative and meeting body with some common resources and services that are shared between members.

- The full merger scenario requires high integrability, analogous levels of development and firm and strict conditions. Hence, it is not practical for OIC-wide co-operation, but is plausible and probably best for smaller OIC groups such as the GCC.

- The remaining two models are plausible, and would serve as models for the OIC co-operation in this area. In either case, the alliance could be open only to authorised stock exchanges in the OIC world, but may include also futures and options markets and clearing organisations.

- Taking a gradual approach, 'the exchanges only' could serve as an initial proposal while the inclusion of futures and options markets and clearing organisations could be regarded as scope for development, as the member exchanges and securities markets mature through time.

- The tight alliance option may be the best to serve the purposes of the OIC. However, this scenario also requires a close-knit crew and a considerable degree of homogeneity and harmonisation between members. While this scenario may be difficult to achieve at first, it is nevertheless plausible and should be adopted as a final target-model for the OIC co-operation in this area.

- Accordingly, this paper recommends the OIC co-operation in this area to start as a relatively loose federation under the name, 'The Federation of Islamic Stock Exchanges' (FISE)[10]. This loose federation is to be limited to an initial predetermined period; we propose 3-5 years after which the federation is to gradually become increasingly encompassing and binding and achieve its final envisaged shape no later than its 10th anniversary.

[10] Alternatively, the name may be based on Arabic or French.

- In its final format, the FISE is to include all Islamic financial institutions that are engaged in issuing, trading, listing, clearing and transferring of securities.

- The proposed federation is to have a charter spelling out its objectives, organisation, and operational rules. It should also clearly state the time frameworks for the projected development of the FISE.

- Alternatively, OIC co-operation could take the form of a common platform and meeting place with a limited range of common resources and services. In this case, it may be appropriately called Fédération des Bourses des Valeurs Islamiques (FBVI).

5.3. Proposed FISE goals and objectives

The main objective of the FISE is to mobilise financial resources within the Islamic world and to enable Islamic firms and corporations to raise essential resources within that domain. For these objectives to materialise, the FISE is to help create a proper setting for savers and investors to meet. A proper environment means building of the essential confidence and trust among savers and security and guarantees for investors.

In line with existing experiences, the proposed FISE may serve the following purposes:

- To serve as a forum for communication, debate and analysis for OIC capital markets;

- To help develop OIC organised and regulated security markets and promote high standards of regulation and efficient markets;

- To harmonise business standards to facilitate cross-border/market trading of securities;

- To support emerging OIC exchanges to develop their markets on internationally recognised standards by offering know-how, expertise and facilities;

- To create the processes and plans which bring members' markets closer in terms of their rules, procedures and standards, thus increasing their integrability and helping thereby their gradual integration;

- To further the Islamic Common Market objective by integrating members' capital markets;

- To carry out market studies and keep statistics records on member exchanges;

- To assist the privatisation and deregulation process of member exchanges to free them of existing restraints and conditions which are designed for the national domestic role;

- To help members disseminate information about their markets through the federation;

- To represent the common interests of members in international bodies such as the FIBV and the International Organisation of Securities Commission (IOSCO-OICU).

5.4. Proposed steps to launch the OIC-FISE Federation

Step 1. Initial authorisation

The proposed FISE project can be put before the OIC policy bodies for an initial resolution endorsing the project in principle. Then an ad hoc committee from the relevant institutions can be formed to study the project and write a detailed report on how to go about it. The report may be discussed within COMCEC before it is put before higher OIC fora for final authorisation.

Step 2. Committee stage

As proposed earlier, this committee is to fully study the project and write a comprehensive report covering its legal, institutional, financial and operational aspects. The report should also include a clear and detailed development plan of the project, taking into account the proposals put forward by this report and any comments and proposals that may arise during the initial stage.

The committee, in addition to the officials who will lead and present the issue, must include the managers or representatives of existing OIC stock exchanges and other relevant institutions. It should also include renowned experts in the various areas related to the project, which include the following:

1. Legal side: This includes the legal framework of the federation and the form of its agreement, a code of conduct, and a charter or a constitution, etc. It also includes the rules and regulations that govern the operational aspects of the project, the procedures and entitlements of membership.

2. Institutional side: This has to do with the type of institution that is most suitable for the OIC purposes. The main question to answer in this respect is what form the OIC alliance should take and, accordingly, what should its name be.

3. Operational aspects: This deals with the practicalities of the project. It involves the drawing up of a plan including a time frame and the financial requirements of the proposed project.

4. Procedural and organisational aspects: This relates to the internal organisation of the proposed institution and the system through which it is to be managed.

Step 3. Final authorisation stage

This stage includes the steps to be taken after the committee stage and until the issuance of the final resolution of the project. It includes consultations at the levels of the OIC and of its institutions on the committee's report and recommendations. These, together with the results of the consultation process, are to be put before the higher OIC bodies for the final decision on the project.

6. CONCLUDING REMARKS

The Islamic Stock Exchange and Clearing Union is an important project which is vital for the OIC co-operation, in general, and for achieving the Islamic Common Market objective, in particular. Through this project, existing Islamic exchanges and related institutions will co-ordinate and standardise their policies and regulations in an effort to bring them in line with the rest of the world. Standardisation will help OIC exchanges and capital markets to integrate and thus become a recognisable group and a force to reckon with in the international market.

There is a two-way relationship between the vigour of any alliance and the strength of relationship and integrability of its members. Thus, the more integrated and integrable the OIC stock exchanges and other related institutions and markets are, the more vigorous their proposed alliance will be, and vice versa.

This paper suggests a two-stage process for the proposed OIC alliance, starting with a loose federation and moving progressively towards a more strict form of alliance. The paper recommends the final shape of the OIC FISE to be something like the new FESE for the OIC institutions that are involved in trading, valuing, listing and transferring securities. In the initial stage, the coalition is to be limited to a looser federation of existing Islamic stock exchanges. The shift towards the stricter format should commence within the first 3-5 years of the federation's launch, and to reach the final conceived form no later than its tenth anniversary.

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STATISTICAL ANNEX

1. OIC Markets Capitalisation, 1989-1998 (US$ millions, end of period levels)

Market	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
OIC Emerging Markets										
Azerbaijan										3
Bahrain										6770
Bangladesh	476	321	269	314	453	1049	1338	4551	1537	1034
Egypt	1711	1765	2651	3259	3814	4263	8088	14173	20830	24381
Indonesia	2254	8081	6823	12038	32953	47241	66585	91016	29105	22104
Iran			34282	33663	1304	2770	6552	17024	15123	14874
Jordan	2162	2001	2512	3365	4891	4594	4670	4551	5446	5838
Kazakhstan										37
Lebanon							400		2904	2385
Malaysia	39842	48611	58627	94044	220328	199276	222729	307179	93608	98557
Morocco	621	966	1528	1909	2651	4376	5951	8705	12177	15676
Nigeria	1005	1372	1882	1221	1029	2711	2033	3560	3646	2887
Oman				1061	1088	1705	1978	2662	7108	4392
Pakistan	2457	2850	7326	8028	11602	12263	9286	10639	10966	5418
Saudi Arabia			48213	54960	52773	38686	40907	45861	59386	42563
Tunisia	638	533	711	814	956	2561	3927	4263	2321	2268
Turkey	6783	19065	15703	9931	37496	21605	20772	30020	61090	33646
Uzbekistan								128	465	
West Bank & Gaza									705	293
IFC Index Markets	**745278**	**613322**	**873214**	**964503**	**1684608**	**1906185**	**1916867**	**2246635**	**2166319**	**1867645**
All EM Index	**745278**	**613621**	**907871**	**1000319**	**1688781**	**1913273**	**1929050**	**2272184**	**2200591**	**1908258**
OIC Developed Markets										
Kuwait	9932				10049	10850	14353	21840	2588	
UAE										31
All Developed Markets	10967395	8784770	10434218	9923024	12327242	13210778	15859021	18139951	21317929	25553855
World Total	11712673	9398391	11342089	10923343	14016023	15124051	17788071	20412135	2351820	27462113

Source: IFC Emerging Stock Markets Factbook 1999, pp.16-17.

2. Value Traded in OIC Markets, 1989-1998 (US$ millions, end of period levels)

Market	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
OIC Emerging Markets										
Azerbaijan										
Bahrain										577
Bangladesh	5	6	3	11	15	107	158	722	384	793
Egypt	91	126	139	195	170	757	677	2463	5859	5028
Indonesia	541	3992	2922	3903	9158	11801	14403	32142	41650	9709
Iran			5217	6995	311	424	741	2617	1212	1389
Jordan	652	407	432	1317	1377	626	517	297	501	653
Kazakhstan										
Lebanon									640	328
Malaysia	6888	10871	10657	21730	153661	126458	76822	173568	147036	28835
Morocco	16	62	49	70	498	788	2426	432	1048	1385
Nigeria	4	11	9	14	10	18	14	72	132	161
Oman				102	108	242	211	545	3880	1943
Pakistan	193	231	620	980	1844	3198	3210	6054	11476	9102
Saudi Arabia			2274	3653	4629	6632	6194	6773	16549	13712
Tunisia	32	19	30	33	46	296	663	281	285	188
Turkey	798	5841	8571	8191	23242	21692	51392	36831	59105	68464
Uzbekistan								70	35	
West Bank & Gaza									25	69
IFC Index Markets	**1169219**	**899910**	**610738**	**624067**	**1103265**	**1664334**	**1041244**	**1507141**	**2660313**	**1952334**
All EM Index	**1169219**	**889920**	**615965**	**631188**	**1103746**	**1665141**	**1042297**	**1510529**	**2666647**	**1956858**
OIC Developed Markets										
Kuwait	1709				2612	1948	6389	19203	34576	9333
UAE										
All Developed Markets	6298778	4614786	4403631	4151662	6090929	7156704	9176451	12105541	16818167	20917462
World Total	7467997	5514706	5019596	4782850	7194675	8821845	10218748	13616070	19484814	22874320

Source: IFC Emerging Stock Markets Factbook 1999, pp.20-21.

3. Number of Listed Domestic Companies in OIC Markets, 1989-1998 (End of period levels)

Market	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
OIC Emerging Markets										
Azerbaijan										2
Bahrain										38
Bangladesh	116	134	138	145	153	170	183	186	202	208
Egypt	510	573	627	656	674	700	746	649	654	861
Indonesia	57	125	141	155	174	216	238	253	282	287
Iran			97	118	124	147	169	220	263	242
Jordan	106	105	101	103	101	95	97	98	139	150
Kazakhstan										18
Lebanon							3		9	12
Malaysia	251	282	321	369	410	478	529	621	708	736
Morocco	71	71	67	62	65	51	44	47	49	53
Nigeria	111	131	142	1153	174	177	181	183	182	186
Oman	52	55	58	60	62	67	80	94	114	131
Pakistan	440	487	542	628	653	724	764	782	781	773
Saudi Arabia			59	60	65	68	69	70	70	74
Tunisia		13		17	19	21	26	30	34	38
Turkey	50	110	134	145	152	176	205	229	257	277
Uzbekistan								4		
West Bank & Gaza									27	20
IFC Index Markets	**8540**	**8995**	**9549**	**10354**	**11451**	**14397**	**16817**	**18639**	**18603**	**24795**
All EM Index	**8709**	**9101**	**9854**	**10730**	**11883**	**14968**	**17954**	**19949**	**20075**	**26354**
OIC & Other Developed Markets										
Kuwait	52				47	48	52	60	74	69
UAE									44	
All Developed Markets	17216	16323	16239	16976	17012	18505	18468	20242	20805	21111
World Total	25925	25424	26093	27706	28895	33473	36602	40191	40880	47465

Source: IFC Emerging Stock Markets Factbook 1999, pp.22-23.

4. OIC Countries Figuring in Top 40 World Rankings

Ranked by:					
Market Capitalisation		**Total Value Traded**		**Number of Listed Domestic Companies**	
Country	Rank	Country	Rank	Country	Number
Malaysia	23	Turkey	18	Egypt	861
Saudi Arabia	32	Saudi Arabia	35	Malaysia	736
Turkey	38	Indonesia	38	Indonesia	287
Egypt	40	Pakistan	39	Turkey	277
				Iran	242
Total	**4**		**4**		**5**

Source: IFC Emerging Stock Markets Factbook 1999, p.24.

5. World Ranking: by Stock Market Turnover Ratio, 1998

Rank	Market	Turnover Ratio	Rank	Market	Turnover Ratio
1	Taiwan, China*	323	46	Mexico*	27.3
2	Spain	201.9	***47***	***Saudi Arabia****	***26.9***
3	Korea*	176.2	48	Israel*	26.6
4	Germany	144.9	49	Latvia*	23.9
5	***Turkey****	***144.9***	***50***	***Egypt****	***22.2***
6	China*	130.1	51	Peru*	19
7	Estonia*	116.9	52	Lithuania*	16
8	Hungary*	111.3	53	Sri Lanka*	14.8
9	***Pakistan****	***111.1***	54	Venezuela*	13.6
10	U.S.	106.2	***55***	***Lebanon***	***12.4***
11	Italy	104.1	***56***	***Jordan****	***11.6***
12	Switzerland	100.8	***57***	***West Bank &Gaza***	***11***
13	Portugal*	93.4	58	Botswana*	10.5
14	Greece*	82.3	59	Zimbabwe*	10.1
15	Ireland	81.8	***60***	***Morocco****	***9.9***
16	Slovakia*	74.3	61	Guatemala	9.6
17	Sweden	73.9	62	Colombia*	9.4

Source: IFC Emerging Stock Markets Factbook, p.15.
Notes:

Asterisk : Emerging Market.
Bold Italics : OIC Markets.

6. OIC in World Ranking of Average Company Size, 1998
(US$ millions, ranked by end-1998 levels)

Rank	Market	Average company size
17	Saudi Arabia	575.2
28	Morocco	295.8
35	Lebanon	198.8
41	Malaysia	133.9
43	Turkey	121.5
51	Indonesia	77
54	Iran	61.5
56	Tunisia	59.7
66	Jordan	38.9
69	Oman	33.5
70	West Bank & Gaza	29.5
72	Egypt	28.3
73	Bahrain	25.3
82	Nigeria	15.5
87	Pakistan	7
90	Bangladesh	5
95	Kazakhstan	2.1
96	Azerbaijan	1.5
99	U.A.E.	0.7

Source: IFC Emerging Stock Markets Factbook 1999, p. 25.

7. Market Weights in the IFCG Composite Index, end-1998

Market	**Number of Stocks**	**Market Capitalisation** (millions US$)	**Weight in IFCG Composite (%)**
Latin America			
Argentina	32	248994	2.89
Brazil	100	65871	7.65
Chile	51	31837	3.7
Colombia	24	6337	0.74
Mexico	70	67174	7.8
Peru	35	6151	0.71
Venezuela	19	4689	0.54
Asia			
China	214	52452	6.09
India	142	49797	5.78
Indonesia	58	10682	1.24
Korea	180	61203	7.1
Malaysia	147	44849	5.21
Pakistan	53	2400	0.28
Philippines	59	21969	2.55
Sri Lanka	51	1036	0.12
Taiwan, China	106	138369	16.06
Thailand	64	16735	1.94
Europe			
Czech Rep.	37	4204	0.49
Greece	56	40891	4.75
Hungary	15	10933	1.27
Poland	35	8134	0.94
Portugal	22	34574	4.01
Russia	32	7453	0.87
Slovakia	19	600	0.07
Turkey	58	16947	1.97
Middle East/Africa			
Egypt	66	5848	0.68
Israel	49	16373	1.9
Jordan	41	4277	0.5
Morocco	18	9674	1.12
Nigeria	28	1942	0.23
Saudi Arabia	21	23791	2.76
South Africa	67	68672	7.97
Zimbabwe	24	653	0.08
By Regions			
Composite	1993	861413	100
Latin America	331	206954	24.02
Asia	1074	399493	46.38
Europe	274	123737	14.36
Middle East & Africa	314	131230	15.23

Source: IFC Emerging Stock Markets Factbook 1999, p.44.