

## **COOPERATION AMONG THE STOCK EXCHANGES OF THE OIC MEMBER COUNTRIES**

SESRTCIC

In response to the increased competition prevailing in the international financial markets, national stock exchanges around the world recently made several attempts to upgrade their cooperation and improve their integration. Those attempts took often the form of coalitions, common trading platforms, mergers, associations, federations and unions. Like others, the OIC countries have recently intensified their efforts to promote cooperation among their stock exchanges with a view to developing and consolidating a mechanism for a possible form of integration among themselves. This paper reviews the experiences of various stock exchange alliances established at regional and international levels and draws some lessons for the OIC countries' stock exchanges in terms of the need for harmonising their physical, institutional and legal frameworks and policies and sharing their investor base.

### **1. INTRODUCTION**

As the international trade and financial flows accelerated, the global economy witnessed an increase in the pace of integration. This process of globalisation is most evidently observed in the capital and financial markets. One important element that has led to such a result is the technological advancement in the information and telecommunications sector. Hence, financial transactions became instantaneous and the information guiding investments open to everybody. In this context, technological advancements and the resulting accelerated flow of information have increased efficiency, fairness, transparency and safety in the international financial and capital markets.

As those developments introduced new prospects and benefits to the stock markets all around the world, they increased competition among the financial markets, securities exchanges in particular. This competition to attract the available funds gave an impetus to the stock exchanges to develop themselves technologically and adopt international standards, rules and procedures, which contributed to their credibility in the eyes of global investors.

In order to meet the challenges imposed by the intense global competition, capital markets around the world sought new outlets. They tend to benefit from the experiences of the other stock exchanges, harmonise their policies with those of others and share their investor base. Thus, forming coalitions, benefiting from common trading platforms and/or applying cross listings in trading have become common practices among stock exchanges to maximise the benefits derived from the globalisation process. As a result, while present-day capital markets have become more integrated and inter-linked than ever before, different forms of stock market alliances have become an important issue in increasing market capitalisation in individual bourses.

Stock exchange alliances are associations, federations or unions of stock exchanges set up with the main purpose of promoting business through cooperation, harmonisation and integration. Contemporary stock exchange alliances range from loose representative bodies to fully-integrated ones. Between those two extremes lies a series of other combinations with varying degrees of cohesion and rigour. Often the names of those institutions, viz., association, federation, union etc., are indicative of the strength of their institutional relationship.

Alliances and links among stock exchanges can be established through a variety of ways and means. Mostly, mechanisms depend on the functionality and capacity of existing stock exchanges to provide those links. Infrastructure facilities such as energy and telecommunications utilities and credit availability also play a crucial role in supporting those mechanisms.

On the other hand, forming alliances and establishing links among stock exchanges entail important responsibilities for the competent authorities in the member countries. This includes the creation of a regulatory

framework for supervising those markets and making the necessary changes in the national legislation. In this regard, the harmonisation of the physical, institutional and legal frameworks will play a key role in consolidating those markets in the participating countries. Moreover, stock exchanges should adopt a common set of rules and standards in listing companies, clearance and settlement processes, and enforce market intermediaries and listed companies to comply with them.

This article is structured as follows: the next Section reviews the important stock exchange alliances. Section III reviews different modalities of cooperation among securities markets. Section IV gives a brief account of the developments related to the cooperation among the OIC stock exchanges. Finally, Section V discusses the implications of further cooperation among the OIC stock exchanges and lists recommendations to this end. The article also includes a statistical annex which provides updated information on the OIC stock exchanges and another that gives a brief overview of some of them.

## **2. AN OVERVIEW OF STOCK EXCHANGE ALLIANCES<sup>1</sup>**

Efforts to set up international cooperation among stock exchanges go back to 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, representatives of several European bourses met in Paris in May 1957, to promote international cooperation among the exchanges. After four years of informal cooperation, the International Federation of Stock Exchanges (FIBV) was established in London in 1961. In 2001, its name was changed to the World Federation of Exchanges (WFE).

### **2.1. World Federation of Exchanges (WFE)<sup>2</sup>**

Based in Paris, the World Federation of Exchanges (WFE) is the international organisation of the world's leading stock exchanges, regulated securities and derivative markets and related clearing houses

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<sup>1</sup> This section provides brief information on the various forms of stock exchange alliances. For a more detailed examination of their goals, structures and functions, see SESRTCIC and ICDT (2004).

<sup>2</sup> [www.world-exchanges.org](http://www.world-exchanges.org).

worldwide. Since its establishment in 1961, the WFE (or FIBV as formerly known) has grown constantly. Today, its membership encompasses 54 regulated exchanges from all over the world. WFE members together account for over 97 percent of the world stock market capitalisation and most of its exchange-traded futures, options, listed investment funds and bonds. It also has 24 more affiliate exchanges and 33 correspondent bourses.

Members of the WFE are required to comply with the “Generally Accepted Principles of Securities Trading” which is determined by its General Assembly (ISE, Sep. 2004, p.16). The WFE provides a forum for communication, analysis and debate among members, facilitates the representation and development of organised and regulated markets and meets the needs of evolving capital markets in the best interest of their users. All aspects -technical, commercial, legal or economic- of the securities business are discussed in its related fora. It provides guidance to member stock exchanges in their business strategies and in the improvement and harmonisation of their management practices. It organises specialised workshops for its members to transfer know-how and share expertise. It conducts studies on such issues as self-regulation, enforcement, trading halts, securities business conduct, and others. It publishes newsletters, statistics bulletins and other publications on member exchanges and maintains statistical and information databases to keep historical records on members.

## **2.2. Federation of European Securities Exchanges (FESE)<sup>3</sup>**

The Federation of European Securities Exchanges (FESE), formerly called the Federation of European Stock Exchanges, is the Brussels-based association of Europe’s authorised stock exchanges, futures and options markets and clearing organisations. It represents a leap forward over its predecessor, the Federation of European Stock Exchanges, as it includes also futures and option markets and clearing houses. The Federation’s membership is open to all regulated and supervised market organisations in the EU, the European Economic Area (EEA) and Switzerland, as well as in the countries seeking accession to the European Union. The Federation is, therefore, also open to

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<sup>3</sup> Formerly known as Federation of European Stock Exchanges; see [www.fese.be](http://www.fese.be) and [www.fese.org](http://www.fese.org).

new market organisations that are subject to EU securities market legislation.

The Federation represents 38 stock exchanges across Europe. Six more are corresponding exchanges. The term ‘correspondent’ applies to leading market operators that are either not ready to apply for associate membership or are from countries not yet in formal negotiations to join the EU. Since the FESE General Assembly decided in Frankfurt on 1 June 2004, that the Exchanges from the 10 new EU member states would be made full members of FESE, there are, at present, no associate members of the Federation (FESE’s Web Site). It is a loose federation of stock exchanges.

The Federation serves as a forum in which stock exchanges discuss the needs of market users and look for agreement as to how those needs are to be met. Member stock exchanges also discuss strategies and methodologies to facilitate the process of integration among them through increased bilateral and regional linkages. Moreover, the Federation looks into methods to further the effectiveness of the equity markets in Europe. It serves as a source of data and information on the member stock exchanges. In this connection, it publishes a statistical review on stock exchange activity in its member exchanges.

### **2.3. Federation of Euro-Asian Stock Exchanges (FEAS) <sup>4</sup>**

The Federation of Euro-Asian Stock Exchanges (FEAS) was established in 1995 on the initiative of the Istanbul Stock Exchange. The headquarters of the Federation is in Istanbul, Turkey. 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 28 member stock exchanges from 25 countries, representing 7,003 traded companies and a market capitalisation of US\$ 200 billion on an average daily traded stock volume of US\$ 845 million. 16 of the member stock exchanges are from the OIC member countries.

The Federation encourages cooperation and communication among the member stock exchanges in order to promote the development of a fair,

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<sup>4</sup> [www.feas.org](http://www.feas.org).

efficient and transparent financial market environment. In this respect, it provides help to its members in such areas as standardisation and harmonisation of rules and regulations, trading systems and settlement procedures, listing criteria, and adopting internationally accepted accounting principles.

#### **2.4. South Asian Federation of Exchanges (SAFE)<sup>5</sup>**

The South Asian Federation of Exchanges (SAFE) was launched in January 2000 in Chittagong by South Asian stock exchanges from Bangladesh, Bhutan, India, Nepal, Mauritius, Pakistan and Sri Lanka. All securities exchanges in the South Asian region may be eligible for membership.

The Federation provides services to its members in the fields of information, research and technical cooperation. It gathers data from the members and disseminates them routinely among the members in a standardised format. It acts as a catalyst for the introduction of standardised procedures and the expansion of the markets. It provides expert advice to the member exchanges in their individual and integrated development in the light of international modern practices. Furthermore, it organises conferences and seminars on relevant topics relating to the regional and world markets and arranges executive exchange programmes.

#### **2.5. African Stock Exchanges Association (ASEA)<sup>6</sup>**

The African Stock Exchanges Association (ASEA) was set up in November 1993 in Kenya. Membership of the association is open to any stock exchange located in Africa. Presently, it has member stock exchanges from Botswana, Central African Republic, Côte d'Ivoire, Egypt, Ghana, Kenya, Malawi, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Swaziland, South Africa, Tanzania, Uganda, Zambia and Zimbabwe. It basically provides a formal framework for mutual cooperation among stock exchanges in Africa through various processes encompassing exchange of information and assistance in the development of member exchanges<sup>7</sup>. It also assists members in the establishment of stock exchanges and development of financial

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<sup>5</sup> [www.safe-asia.org](http://www.safe-asia.org).

<sup>6</sup> [www.asea.wananchi.com](http://www.asea.wananchi.com).

<sup>7</sup> Information for Africa (Mbendi), [www.mbendi.co.za/orgs/cdkp.htm](http://www.mbendi.co.za/orgs/cdkp.htm).

instruments. It further develops practices for the standardisation and maintenance of listings and issuing, trading and settlement of securities. It serves as a source of data and information about the member stock exchanges and supports studies on matters of interest to its members.

#### **2.6. Southern African Development Community (SADC) Exchanges' Committee**

The SADC Committee of Stock Exchanges was formed in January 1997 as a private sector initiative within the SADC framework. Its membership is open to all member countries of the SADC. Member countries with established exchanges include Botswana, Malawi, Mauritius, Mozambique, Namibia, Swaziland, South Africa, Tanzania, Zambia and Zimbabwe. It serves to maintain and improve market integrity in order to have a fair, efficient and transparent market environment within the Community. The Committee develops the policies and strategies which build upon the concepts of harmonisation and rationalisation of operations. It also assists member stock exchanges in the sharing of information, expertise and experience.

#### **2.7. Federacion Iberoamericana de Bolsas de Valores (FIABV)**

The FIABV was created in Rio de Janeiro, Brazil, on 27 September 1973. It includes 19 stock exchanges from Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Spain, Mexico, Panama, Peru, Portugal, Uruguay and Venezuela. It furthers cooperation among its members in order to promote the development and advancement of their securities markets in the interest of all market participants.

#### **2.8. EURONEXT<sup>8</sup>**

The Euronext stock market, which is the first European stock exchange, was created in September 2000 by the merger of the Amsterdam and Brussels Exchanges and the Paris Bourse. On 30 January 2002, the Lisbon Stock Exchange joined the Euronext whose name changed to Euronext Lisbon on 6 February 2002. These stock exchanges also merged their derivative markets under the name of Euronext.liffe. It was created in response to a growing demand from the

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<sup>8</sup> [www.euronext.com](http://www.euronext.com).

market –a favourable climate to achieve further consolidation in the European capital market- and to meet the need for greater liquidity and lower costs resulting from the introduction of the euro. The Euronext is a member of the Federation of European Securities Exchanges (FESE).

Euronext has the biggest market capitalisation in Euroland (51 percent of the total) and is the biggest commodities exchange in Europe and the number one exchange for options. It is also a truly international merger with transnational business units, transnational management and transnational shareholders and members.

Euronext is not only a merged entity, it is also an open venture. It conducts its business through three separate operators: Euronext Amsterdam, Euronext Brussels and Euronext Paris. These three operators and their regulated markets are subject to local requirements governing official stock exchange status.

## **2.9. NOREX**

The NOREX is an alliance between Nordic and Baltic stock exchanges in Denmark, Estonia, Finland, Iceland, Latvia, Norway and Sweden. Its establishment was first decided in June 1997 when the stock exchanges in Copenhagen and Stockholm signed a Letter of Intent to form a strategic alliance between them. After intensive work to create the conditions for the Alliance, in June 1999, the first phase of the NOREX Alliance became a reality when Danish and Swedish share trading commenced in the joint trading system SAXESS.

NOREX aims to create a joint Nordic securities market, giving access to trading in all types of instruments. It offers investors, issuers and members a cost-effective and high quality securities market, covering a wide range of investment opportunities. The alliance is based on the principles of cross membership, a common trading system and a common regulatory framework.

Member stock exchanges of NOREX have created the possibilities for efficient cross-border trading, but a common system for settlement is still missing. Today, there are differences according to national rules and



regulations. Clearing and settlement take place locally at one of the Nordic Central Securities Depositories (CSDs). This is one of the most crucial issues that need to be handled for the Alliance's future development. The market's demands for a single system for clearing and settlement are to be met through an integrated approach.

### **2.10. Lessons**

From the various existing models discussed in this section, the following insights and lessons can be inferred:

A full merger or a tight alliance may be the best to serve the purposes of more integrated cooperation schemes. However, such a scenario requires firm and strict conditions, high integrability and analogous levels of development among such institutions and a considerable degree of homogeneity and harmonisation among the economic policies of the member countries. Therefore, it is not practical at the beginning for an OIC-wide cooperation in this area.

Other models, whether tight or loose, could serve as models for such cooperation. However, since these models necessitate the creation of a new body within the OIC system, they do not meet the criteria laid by the 19<sup>th</sup> Session of the COMCEC.

Therefore, OIC cooperation in this area may take the form of a common platform and meeting place where stock exchanges come together to encourage cooperation and coordination among themselves in order to enhance an effective regulatory and supervisory environment for their financial markets, work towards the harmonisation of accounting standards, exchange know-how and best business practices for improving markets and help one another develop human resources and capacity building.

The inclusion of futures and options markets and clearing organisations and the establishment of higher forms of integration among them could be regarded as a scope for gradual development as the member stock exchanges and other financial markets mature over time.

### **3. COOPERATION MODALITIES AMONG SECURITIES MARKETS**

#### **3.1. Cross Listing**

Cross Listing is the admission for listing/trading of securities which are already listed on a local stock exchange on foreign stock exchanges. Cross-listed securities will be subject to the rules and regulations of the local exchanges. Although cross listing is subject to the preference of the companies, stock exchanges may facilitate cross listing by opening their markets to the securities listed in other exchanges on a correspondence basis.

#### **3.2. Cross Membership**

Cross membership is accepting the members of other stock exchanges for membership. It is a means for the intermediary institutions to access foreign stock exchanges directly. There are two alternative systems to be pursued for cross membership. One is remote membership and the other buying or selling through a brokerage house in the country where the trading takes place.

For a remote membership, the Central Securities Depository (CSD) opens both cash and securities accounts for remote members or their home country's CSD in the settlement systems of the host country where the trading takes place (See Table 1). Moreover, a cash correspondent relationship can be established in case of necessity. On the other hand, a uniform and standard custody agreement for this purpose could be adopted in order to ease the problems that might occur as a result of different market practices. Essentially, settlement members are foreign brokers or their home country's CSD. The settlement of securities and payment are realised by the CSD of the country where the trading takes place.

On the other hand, in case of buying or selling through a brokerage house in the country where the trading takes place, foreign brokers directly trade through a local broker in the country (See Table 1). Although the local broker is a direct party to the settlement, in case of default, foreign brokers or their stock exchange or settlement institution are accepted as responsible for the fulfilment of due obligations. For this

purpose, an agreement is signed between local and foreign brokers, together with both brokers' stock exchanges and settlement institutions. Essentially, settlement members are local brokers. The settlement of securities and cash is realised by the CSD of the country where the trading takes place.

**Table 1: Trading Under Cross Membership**

<b>A) Remote Membership</b>	CSD opens both cash and securities accounts for remote members or their home country's CSD in the settlement system of the country where the trading takes place.
Settlement members	Foreign brokers or their home country's CSD.
Settlement of securities and cash	It is realised by the CSD of the country where the trading takes place.
<b>B) Buying or selling through a brokerage house in the country where the trading takes place</b>	Foreign brokers can directly trade through a local broker in the country.
Settlement members	Local brokers.
Settlement of securities and cash	It is realised by the CSD of the country where the trading takes place.

Source: Derived from <http://www.unece.org>.

### 3.3. Common Trading Platform (CTP)

The Common Trading Platform (CTP) is a central trading platform that will be created in order to enable the securities of the companies in member country jurisdictions to be traded collectively in accordance with the principles established by the participating stock exchanges. These principles consist of special rules that make up the legal, organisational and technical infrastructures of the trading platform. There are two alternative approaches used for it.

In the first approach, a CTP provides a Centralised System where the CTP is administered by an Executive Committee consisting of the representatives of the participating stock exchanges and operated by a CTP operator. In this case, the latter will be located in one of the participating countries and will be a legal entity or a stock exchange within the jurisdiction of a member country. However, by pursuing this

model, the existing systems for the local markets will be preserved and the participating stock exchanges will jointly design a new trading system to be used for the CTP.

The other approach is a CTP providing an Order Routing System without having to establish a Centralised System. In this model, a new trading system will be adopted by the participating stock exchanges or a common interface will be installed among them. Thus, the CTP may be jointly operated by all the participating stock exchanges and will be a legal entity.

Regardless of whether it is a centralised or a decentralised model, settlement members in case of a CTP are brokers and local custodians or Central Securities Depositories (CSDs) of member countries. However, this may create risks as a number of institutions are involved in these transactions. On the other hand, local rules and regulations in some countries may not allow a CSD to become a member of such systems. In addition, the settlement risks of brokerage houses can create problems for the CSDs.

### **3.4. Construction of Indices**

While globalisation has become increasingly effective in the overall functioning of the world economy in recent years, the advancements in information and telecommunications technology played a pivotal role in this regard. On the one hand, stock markets shifted to fully-automated, screen-based trading systems, including remote trading facilities. On the other, demand for transparency and reliable and concise data and information increased. The need for reliable and concise data on market transactions brought about the development of various indices to summarise market developments on price and return statistics. Additionally, the dissemination of market performance data through various media such as data dissemination terminals, the internet, tv-teletext, GSM phones, etc., has become one of the indispensable tasks of the stock exchanges.

When cooperation among stock exchanges is considered, the development of price and return indices on market performances and the dissemination of such statistics through the various instruments

being utilised by the brotherly stock exchanges constitute one of the most fruitful modalities of cooperation. Therefore, quoting the market performance indices of other exchanges, in particular the newly developing ones, will certainly help attract the attention of investors from other countries. Furthermore, the construction of composite market indices at sub-regional levels such as the Middle East or Gulf Region, etc., and the dissemination of such data and information through various means of communication such as the radio, television, newspapers, magazines, etc. will help develop close cooperation links and schemes among the stock exchanges.

### **3.5. Cooperation with Existing Federations**

As discussed under Section II, related to stock exchange alliances, there are various alliances formed at the international and regional levels. Some of these include stock exchanges operating in the OIC member countries, for example, the Federation of Euro-Asian Stock Exchange (FEAS), the South Asian Federation of Stock Exchanges (SAFE) and the African Stock Exchanges Association (ASEA). These alliances aim to increase cooperation and coordination among their member stock exchanges through promoting various cooperation modalities among their members. The stock exchanges in the OIC member countries may benefit from the data centres, best practices reflecting experiences relating to the market development, training programmes and other activities of those alliances. Increasing cooperation with such regional Federations will also help the OIC stock exchanges establish similar cooperation and collaboration relations among themselves.

### **3.6. Training and Technical Cooperation**

In today's complex world, with the increased and easy flow of financial funds among countries, practices related to transparency and the full and fair functioning of stock exchanges become more important than ever. In such an environment, the administrations of stock exchanges need to supervise various market participants and enforce their compliance with the laws, rules and regulations in order to ensure transparency in the functioning of the market and create an

ideal investment environment. They need to train investors, brokers and companies to comply with the rules and regulations and to eliminate illegal and prohibited activities. For this purpose, those administrations need to exchange information and expertise among themselves. In this regard, the best way is to increase training and technical cooperation among them whereby they can share their experiences and increase their control and surveillance over the markets. In this way, while they would be able to ensure the safety and efficiency of the procedures and trading and the better functioning of the stock market, they would increase the reputation of the stock exchange and, as a result, be able to attract more liquidity from the international investors.

#### **4. DEVELOPMENT OF COOPERATION AMONG THE OIC STOCK EXCHANGES**

##### **4.1. Current Situation Regarding the OIC Stock Exchanges**

The creation of any mechanism for promoting cooperation among the OIC member countries in the areas of financial markets and clearing of stocks and bonds will essentially depend on the state of development in those OIC markets. A rough picture in this regard is reflected in Figures 1 and 2. Additionally, the tables in the Statistical Annex reflect the state of development during the period 2000-2004 in the OIC stock exchanges with respect to the number of listed companies (Table A.1), levels of market capitalisation (Table A.2) and the total value traded (Table A.3). Table A.4 lists the stock exchanges in the OIC member countries and their respective internet addresses. Currently, 41 exchanges are at the service of 39 OIC countries. Out of those exchanges 1 operates as a “regional stock exchange” (Bourse Régionale des Valeurs Mobilières) and is shared by 8 countries (Benin, Burkina Faso, Côte d’Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo). 34 of those exchanges operate under the name “stock/securities exchange or market”, 2 under the name “currency exchange”, 1 uses the title “financial market” while another one uses the name “futures exchange” and 2 are “commodity exchanges”. In the OIC stock exchanges, the number of listed companies first increased from 5,374 in 2000 to 6,920 in 2002 and then decreased to 6,315 in 2004. Meanwhile, the market capitalisation in the OIC stock exchanges continuously increased from US\$ 382 billion in 2000 to US\$ 1,079.6 billion in 2004. The increases in 2003 and 2004 are remarkable.

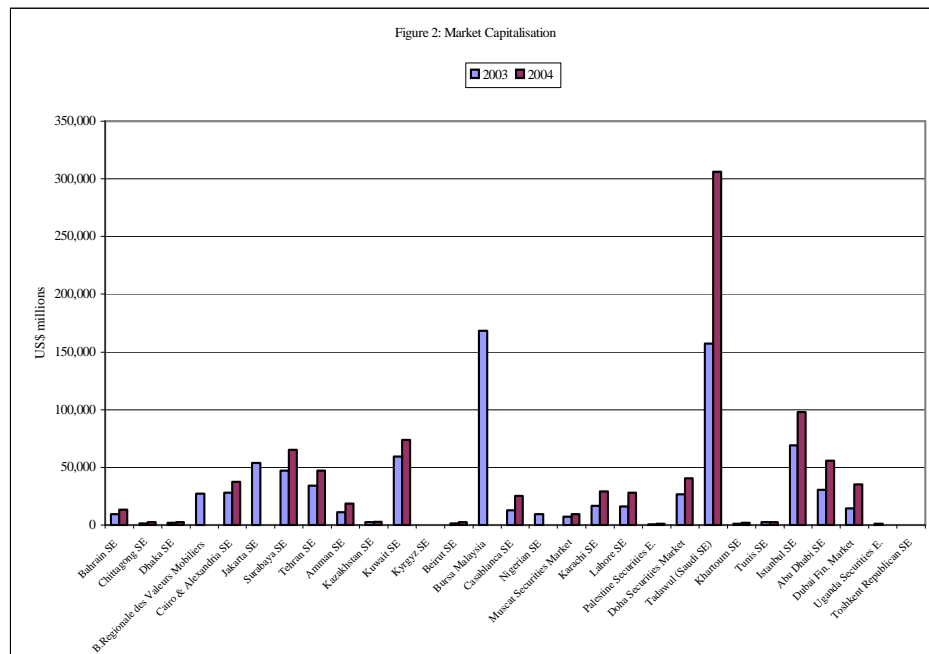
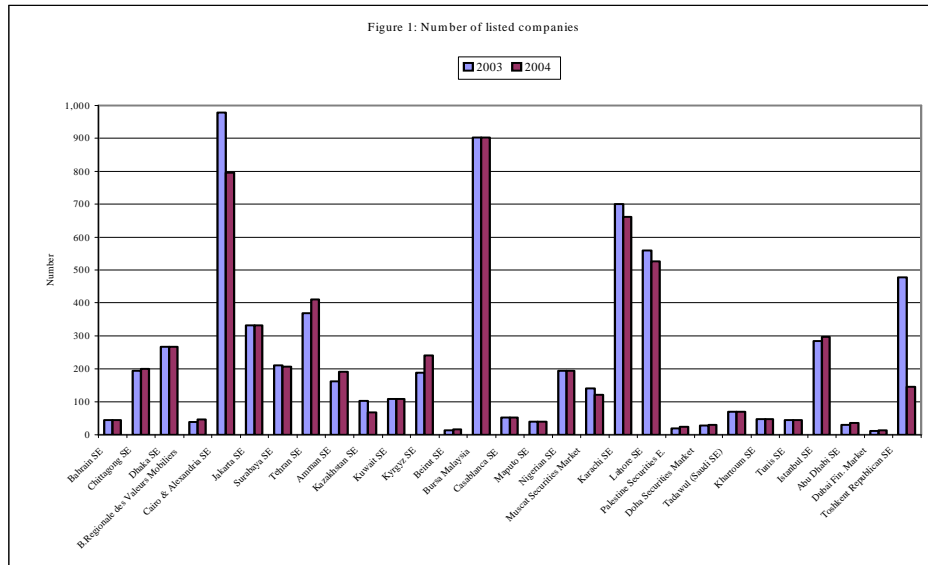
The main companies listed in the OIC stock exchanges are from the following sectors: real estate, hotels and tourism, mining and metals, IT such as communication and computing, consumer goods, manufacturing, financial services (banking and insurance), construction, transport and shipping (airlines), and food, trading and retailing<sup>9</sup>. Although endowed with high potential for development, the OIC stock exchanges in general are afflicted with comparatively low levels of liquidity reflected in the form of the low number of listed companies, low market capitalisation or low trade volumes as might be followed from the tables in the Statistical Annex. In fact, those symptoms could be attributed mainly to the regulatory frameworks which are yet to be developed and the macroeconomic risks the investors assign to those markets.

Among the other causes that explain the shallowness of those markets, the following points could also be mentioned: lack of adequate flow of financial information, lack of product differentiation (scale of economies, differentiation of services), existence of cross-country legal and regulatory differences (differences of listing requirements, accounting diversity), high information costs, cultural and linguistic differences and geographic diversity. Although a number of steps are being taken by some OIC stock exchanges and regulatory bodies to address these issues such as improving the transparency of markets and institutions, introducing legal and regulatory reforms, the introduction of new financial instruments and continuing efforts in privatisation,<sup>10</sup> the intense competition for available funds necessitates the adoption of feasible strategies and a mode of cooperation among the financial institutions of the OIC member countries, in general, and the OIC stock exchanges, in particular.

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<sup>9</sup> ICDT (2005), p.3.

<sup>10</sup> *ibid.*





#### **4.2. A Chronological Perspective of Cooperation Efforts Among the OIC Markets**

The idea of promoting investments among the OIC member countries goes back to 1974 when the Fifth Islamic Conference of Foreign Ministers (ICFM) (Kuala Lumpur, 21-25 June 1974) recommended for consideration the encouragement of a) joint ventures and b) investment by individual Muslim countries in other Muslim countries, the relaxation of controls on the movement of investment capital, and conclusion of agreements on the avoidance of double taxation, guarantees for remittances of such investment and adequate safeguard for all investments.

Especially, in line with the provisions of the “General Agreement for Economic, Technical and Commercial Cooperation among the Member States of the Organisation of the Islamic Conference” and particularly the provisions of Article 1 of the said Agreement, approved by the Eighth Islamic Conference of Foreign Ministers (Tripoli, 16-22 May 1977), the preparation of the “Agreement for the Promotion, Protection and Guarantee of Investments among the Member States of the Organisation of the Islamic Conference” was an important step towards the promotion of intra-OIC investments.

The said Agreement was adopted by the Twelfth Islamic Conference of Foreign Ministers (Baghdad, 1-5 June 1981). The Preamble clearly explains its objective: “to provide and develop a favourable climate for investments, in which the economic resources of the Islamic countries could circulate between them so that optimum utilisation could be made of these resources in a way that will serve their development and raise the standard of living of their peoples”. It sets the basic principles for the promotion of capital transfers among Member States of the OIC and protects their investments against commercial risks while guaranteeing the transfer of capital abroad. The Agreement entered into force in February 1988.

In 1994, within the framework of the COMCEC activities, it was decided to establish a new scheme “Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)” as a subsidiary of the IDB Group. It mainly aims to enlarge the scope of trade transactions and investment flows among the member countries of the OIC. To this end, it provides export credit/investment insurance or

reinsurance against commercial and political risks. The IDB owns 50 percent of the 100 million Islamic dinars of the Corporation's capital, while the remaining part is reserved for subscription by the OIC member countries. It serves to cover the country risk regarding investment among the member countries (IDB, Annual Reports).

Meanwhile, the COMCEC worked out a new Strategy and Plan of Action to Strengthen Economic and Commercial Cooperation and adopted them at its Tenth Session (Istanbul, 22-25 October 1994).

The Plan of Action includes among its major objectives the idea of "enhancing financial flows by reducing constraints on capital movements and investments among member countries". It also allocates a separate section to Money, Banking and Finance. In this section, after discussing the problems and issues relating to the subject, it lists the basic objectives regarding the cooperation framework in this field. Among them, the aim to "promote and develop capital markets, and prove access thereto by other member countries, with a view to encouraging investments on the basis of mutual benefits and sound commercial practice" is particularly noteworthy. Additionally, it aims to "facilitate the flow of financial resources and direct foreign investment flows among the member countries through gradual removal of restrictions on capital movements and ensuring investment protection and guarantees." These two basic objectives in addition to three others under the said chapter constitute the basic framework to build a sound cooperation mechanism among the stock exchanges of the OIC countries.

To this end, the OIC Plan of Action also lists a set of measures under the "Programmes of Action" to be implemented by the Member States. It envisages, inter alia, the "development and application of all the necessary institutional and administrative measures by the member countries to encourage an enhanced flow of capital within the OIC community as an essential element of financial cooperation."

In line with these provisions of the OIC Plan of Action and its "Mechanism of Follow-up and Implementation", a Sectoral Expert Group Meeting (EGM) in the Area of Money, Banking and Finance was convened in Istanbul on 1-3 September 1997. That EGM

considered, inter alia, the following project ideas and proposals made by some member countries:

- The implementation of a training programme for the establishment and development of capital markets and stock exchanges in the OIC member countries;
- Trading of securities issued in the member countries in the international market of the Istanbul Stock Exchange;
- Participation of member countries in the Federation of Euro-Asian Stock Exchanges located in the Istanbul Stock Exchange and/or establishment of a similar federation for the OIC member countries. Yet, the strongest impetus in this regard came from the Ninth Session of the Islamic Summit Conference (Doha, 12-13 November 2000). The Conference focused on the subject by adopting a separate Resolution (39/9-E) on OIC stock exchanges. In the said resolution, the Conference:

“... Noting that in the context of current world economic situation the OIC member states require to develop their economic structures and consolidate economic relations among themselves and with other countries by creating the appropriate climate to attract and stabilise investments... and appreciating the efforts made by most Member States to develop their stock exchanges by mobilising and attracting national savings and channelling them into local investment opportunities to avoid flight of capital abroad... requests the OIC Secretary General to issue the necessary directives to the relevant OIC institutions to undertake the necessary studies on a mechanism for the possible establishment of an Islamic Stock Exchange Union and a Stock Clearing House as well as to develop Islamic financial instruments acceptable to investors from the standpoint of the Shariah...”

As openly stated in its preamble, the said Resolution basically aims to develop the economic structures of the OIC member countries and consolidate economic relations among them by creating the appropriate climate to attract and stabilise investments. In other words, by promoting cooperation among their stock exchanges, the OIC member

countries intend to develop and consolidate economic relations among themselves, in general, and in particular desire to attract and stabilise investments. Especially the idea of attracting and stabilising investments gains importance when it is recalled that the Doha Islamic Summit was convened just after the major East Asian financial crisis in 1997-98. During that crisis, not only the countries in the region but also many other developing countries were adversely influenced due to its contagion effects. Additionally, it is a fact that the OIC countries attract relatively fewer amounts of international funds<sup>11</sup>. Obviously, the promotion of relations among the OIC stock exchanges in the approach of the Doha Summit is inherent.

In the same direction, the 28<sup>th</sup> Islamic Conference of Foreign Ministers held in Bamako, Republic of Mali, on 25-27 June 2001, requested (Resolution 39/28-E) the Ankara and Casablanca Centres to undertake the necessary studies on a mechanism for the possible establishment of an Islamic Stock Exchange Union and a Stock Clearing House. The said ICFM also requested the OIC Secretary General to submit a report on the subject to the annual session of the COMCEC and to the Twenty-ninth Session of the ICFM. With this ICFM resolution, the subject has become one of the permanent agenda items of the COMCEC.

Therefore, in the following year, the matter was taken up by the 18<sup>th</sup> Session of the COMCEC, held in Istanbul on 22-25 October 2002. Meanwhile, the Ankara and Casablanca Centres submitted their reports on the topic to the said COMCEC meeting as well as the other relevant OIC fora. At the end of its deliberations, the 18<sup>th</sup> COMCEC entrusted the SESRTCIC and the ICDDT to continue to follow up and study jointly the subject.

In the following year, the two Centres submitted a joint report on the subject to the 19<sup>th</sup> Session of the COMCEC (Istanbul, 20-23 October 2003). While noting with appreciation the said joint Report, the COMCEC further entrusted the SESRTCIC and the ICDDT to undertake the necessary studies on creating a mechanism for cooperation among the OIC Member States in the areas of financial markets and clearing of stocks and bonds without such studies leading to the creation of any

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<sup>11</sup> SESRTCIC (2005), p.60.

new bodies but rather the activation of the existing mechanisms in such fields.

Under this new guidance, the concerned Centres revised their earlier study and prepared a new joint report in line with what has been proposed by the 19<sup>th</sup> Session of the COMCEC.

The said study was submitted to the 20<sup>th</sup> Session of the COMCEC. While appreciating the joint report, the COMCEC underlined the importance of this project for the OIC economic cooperation, in general, and for enhancing investment opportunities in the OIC countries, in particular. Furthermore, it requested the Istanbul Stock Exchange (ISE), upon the offer of the representative of Turkey, to hold a meeting of representatives of the stock exchanges from member countries to prepare the ground for launching a framework of cooperation among the stock exchanges in close cooperation with the IDB, the SESRTCIC, the ICDT and the ICCI. In this connection, it also entrusted SESRTCIC and the ICDT to continue to follow up and study developments on the subject and their implications for the Member States and report to the next session of the COMCEC.

In line with this COMCEC request, a meeting was held in Istanbul on 28-29 March 2005. As will be discussed below, the Meeting made pertinent recommendations to promote cooperation among the stock exchanges of the OIC member countries. With the successful and dynamic start, the participating stock exchanges show signs of a high degree of determination in setting and promoting a cooperation mechanism within the OIC community. With this, the outcomes of the Meeting raise the hope of attaining the objectives and programmes of action of the OIC Plan of Action in the field of Money, Banking and Finance.

Although the determination among the participating OIC stock exchanges was high as reflected in the final report of the said meeting, the continuation of this strong will is going to play a major role in the achievements of this platform. However, at this point and before going into the details of the Round Table Meeting, it would be useful to recall the basic goals and objectives expected out of such a platform as proposed in the joint Report of the SESRTCIC and the ICDT which was submitted to the 20<sup>th</sup> Session of the COMCEC.

#### **4.3. Proposed Goals and Objectives of the Platform of Cooperation Among the OIC Stock Exchanges**

Considering the differences among the OIC stock exchanges, the joint Report entitled *Stock Exchange Alliances and Cooperation among the OIC Member States* suggests a loose form of cooperation. Specifically, the Report proposes the formation of a common platform composed of the OIC stock exchanges to allow them to cooperate and coordinate in order to achieve a number of mutual interests. This platform is expected to create a proper environment for inducing higher and more integrated and sophisticated forms of cooperation. Thus, the Report cites the following goals and objectives that could be pursued over time through the beneficial utilisation of the said platform:

- serving as a forum for discussing the common problems facing the financial and capital markets in the OIC countries,
- exchanging information, views and expertise on regulating these markets,
- exchanging know-how and best business practices for improving financial markets,
- helping member countries develop high standards of regulation and promote the harmonisation of market rules and procedures,
- representing common interests of member stock exchanges in relevant international fora,
- cooperating in human resources development and the transfer of technology in financial markets,
- helping members disseminate information on their markets through the platform and exchange data and statistics records on member stock exchanges,
- taking the necessary steps for mobilising internal financial resources and facilitating the optimal utilisation of such resources in OIC investment projects,
- enhancing an effective regulatory and supervisory environment,

- working towards the harmonisation of accounting standards,
- encouraging cooperation and coordination among the member states in order to promote the development of their financial markets,
- supporting the establishment of new OIC stock exchanges under internationally recognised standards by offering know-how, expertise and facilities,
- taking the necessary steps for facilitating foreign investment in the OIC capital markets by harmonising business standards and practices to facilitate cross-border/market trading of financial instruments,
- creating the necessary action and processes which bring member stock markets closer in terms of their rules, procedures and standards, thus increasing their degree of integration.

Thus, the platform, whose formation was stipulated in the mentioned Report, expects, within the context of fulfilling the proposed goals and objectives, to give way to a higher degree of cooperation among the OIC stock exchanges over time. The beneficial utilisation of such a platform is also likely to pave the way for higher forms of cooperation among the members. In fact, as a promising sign of fulfilling the proposals listed above, a forum among the OIC stock exchanges was institutionalised recently as mentioned in the previous sub-section. Thus, the next sub-section elaborates on the details of the Meeting which started such a close cooperation among the OIC exchanges and on the decisions taken by that very first gathering.

#### **4.4. First Round Table Meeting on the Promotion of Cooperation Among the OIC Stock Exchanges**

As mentioned in sub-section 2 above, the Istanbul Stock Exchange (ISE) convened a meeting in line with the request made by the Twentieth Session of the COMCEC for launching a framework of cooperation among the OIC stock exchanges. The *Round-Table Meeting on the Promotion of Cooperation Among the Stock Exchanges of the OIC Member States*, organised with this motivation, was held in Istanbul on 28-29 March 2005. The Meeting was attended by the

representatives of a number of OIC stock exchanges<sup>12</sup> and the related OIC institutions<sup>13</sup>.

During the discussions, the following proposals regarding the points of interest in cooperation with the attending Exchanges were made:

1. Establishment of a Data Centre which will include the data of the respective stock exchanges
2. Creating a common index for Islamic countries' stock exchanges
3. Creating Islamic Depository Receipts
4. Cross-listing and cross-membership
5. Creating a Common Trading Platform
6. Promoting the harmonisation of market rules and procedures and best practices for stock exchanges, and
7. Training programmes for the staff of the exchanges.

Showing a strong sign of determination for cooperation by defining the areas of interest as enumerated above, the participants in the Round Table Meeting agreed to launch an "Islamic Stock Exchanges Forum" (ISEF) through which cooperation among the stock exchanges of the OIC member countries would continue. It was also decided that the said Forum would meet twice a year (at the first and the last quarters of the year). One of those meetings would be hosted by the Istanbul Stock Exchange and the other by one of the other participating stock exchanges.

In order to further cooperation, it was agreed to establish two working committees, namely the Technical Committee and the Information Technology (IT) Committee. The Technical Committee, which is composed of Amman Stock Exchange, Muscat Securities Market, Istanbul Stock Exchange, Tadawul-Saudi Stock Market, Palestine Stock

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<sup>12</sup> Amman Stock Exchange (Jordan), Bursa Malaysia Berhad (Malaysia), Dhaka Stock Exchange (Bangladesh), Dubai Financial Market (UAE), Istanbul Stock Exchange (Turkey), Karachi Stock Exchange (Pakistan), Khartoum Stock Exchange (Sudan), Muscat Securities Market (Oman), Palestine Securities Exchange (Palestine), Tadawul-Saudi Stock Market (Saudi Arabia) Tehran Stock Exchange (Iran) and FEAS.

<sup>13</sup> COMCEC Coordination Office, SESRTCIC, ICDT, IDB and ICCL.



Exchange and Dubai Financial Market, will deal with the following topics:

- creating indices,
- introducing Islamic Depository Receipts (IDRs),
- exploring cross listing opportunities,
- bridging to other Islamic Exchanges and Institutions,
- exchanging staff and providing training opportunities to them,
- preparing questionnaires and surveys for the assessment of the stock exchanges,
- defining areas of (further) cooperation.

On the other hand, the Information Technology (IT) Committee, which will be composed of the Istanbul Stock Exchange, Tehran Stock Exchange, Dubai Financial Market and Bursa Malaysia Berhad, will work on the following:

- Assessing the technological level of the participating stock exchanges,
- Creating a data centre.

It was decided that the ISEF would convene in Casablanca at a date to be determined later.

As an important and tangible step in the course of strengthening cooperation among the OIC stock exchanges, the formation of the ISEF is an important milestone. It carries prospects of providing further links among the OIC stock exchanges as well as augmenting their investor base. Reflections on the implications of further cooperation and recommendations to this end can be found in the following section.

## **5. IMPLICATIONS OF FURTHER COOPERATION AMONG THE OIC STOCK EXCHANGES AND RECOMMENDATIONS**

The convening of the first “Round Table Meeting on the Promotion of Cooperation Among the Stock Exchanges of the OIC Member States” is a remarkable step towards establishing a cooperation mechanism

among those stock exchanges. The said Meeting announced the formation of the “Islamic Stock Exchanges Forum”. This event signifies the commencement of an important project towards the implementation of the provisions of the OIC Plan of Action in the field of Money, Banking and Finance. It is in line with one of the basic principles of the Plan of Action that the private sector would be given a pivotal role in enhancing economic cooperation among the OIC Member States. At the same time, together with the implementation of the related provisions of the “Agreement for the Promotion, Protection and Guarantee of Investments among the Member States of the OIC” which entered into force in February 1988, this Forum will contribute to fostering financial exchanges among the OIC Member States.

With the creation of a cooperation mechanism among them, existing stock exchanges, clearing houses and related financial institutions in the OIC countries will cooperate with each other in coordinating their activities and integrating their policies, rules, regulations and procedures to a certain degree. This process will inevitably help increase their competitiveness, as compared to other similar institutions, and enhance investment opportunities in the OIC countries. As a result, they will further mobilise their internal resources and facilitate the optimal utilisation of such resources in profitable investment projects both in public and private sectors. This will also help increase the flow of funds among the Member States and further contribute to the overall OIC economic and commercial cooperation. In turn, increased cooperation and coordination may help OIC stock exchanges and capital markets pave the way for attaining higher degrees of cooperation. Closer ties among the OIC stock exchanges will make them a recognisable group and a force to be considered in the international financial markets. Keeping in view that increased cooperation and coordination will most likely encourage the OIC stock exchanges establish more advanced and integrated forms among them, a set of recommendations is listed below not only to create a mechanism for cooperation among those exchanges, but also to prepare them to move towards higher integration forms.

- Various stock exchanges in the OIC member countries have been organising training programmes for their own staff, market participants and professionals from private and public-sector

companies and institutions of the capital markets. Such training programmes are recommended to be open to participants from other OIC countries to increase cooperation among them. This would enable a more efficient and wider use of the training facilities existing in the member countries.

- Similarly, the organisation of workshops, seminars and similar activities should be encouraged to increase the exchange of information and views among the concerned institutions of the member countries in the field of financial markets, particularly in stock exchanges.
- Benefiting from the experiences and self-assessment of the already-established stock exchanges is a useful source and reference knowledge to be utilised by countries in establishing new stock exchanges or developing existing ones. Therefore, while increasing cooperation among stock exchanges in the member countries, special attention should be given to encouraging the exchange of experiences and best practices among them. In this regard, an important contribution, namely “*Best Practices for the Development of Stock Exchanges in Transition Economies*”, prepared jointly by the Istanbul Stock Exchange (ISE) and the Federation of Euro-Asian Stock Exchanges (FEAS)<sup>14</sup>, could be cited for the benefit of the stock exchanges in the OIC member countries.
- Stock exchanges in the member countries should be encouraged to become members in sub-regional, regional and international alliances or federations, some of which have been studied briefly in the second section of this report. This will help them contribute to promoting their local securities markets and developing more practical and pragmatic ways and means of market practices.
- The formation of sub-regional securities markets, such as the *Bourse Régionale des Valeurs Mobilières* in Côte d’Ivoire, should be encouraged through increased cooperation among the stock exchanges at the regional level. The introduction of sub-regional

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<sup>14</sup> FEAS and ISE, Best Practices for the Development of Stock Exchanges in Transition Economies, <http://www.oecd.org/dataoecd/31/19/2078603.pdf>.

securities markets could facilitate the harmonisation and standardisation of market practices and techniques and, as a result, contribute to the development of a more efficient and competitive capital market within the OIC region. Also, such formations could give the newly established thin markets an opportunity to benefit from the scale economies.

- Stock exchanges in the OIC member countries should be encouraged to disseminate statistical data and information on the other securities markets, in particular to quote market indices of other exchanges, in order to attract the attention of investors from the member countries.
- Similarly, composite market indices at the sub-regional levels should be constructed and disseminated through various means of communication, such as the radio, television, newspapers, magazines, etc. In this regard, institutions such as Dow Jones and FT have already constructed Islamic Indices, namely the Islamic Market Index and the FTSE Global Islamic Index. The Securities included in these indices are those listed on the world's developed markets and not necessarily on the markets of the Islamic countries (Proposals by Turkey, 2004:2).
- Cooperation among supervisory and regulatory authorities should also be fostered with a view to enhancing an effective cooperation among stock exchanges.
- Signing of a Memorandum of Understanding (MoU) on a bilateral basis among the stock exchanges and the supervisory and regulatory authorities should be stimulated in order to pave the way for attaining multilateral agreements on regional or wider scales.
- Stock exchanges in the member countries should be encouraged to develop high standards of rules and regulations and promote the harmonisation of market practices, procedures and techniques.
- Cooperation among clearing and settlement institutions in the OIC member countries should be supported so as to develop a mechanism for facilitating cross-border trading.

- Necessary measures should be taken to facilitate further development of electronic trading in domestic securities markets, and linkages between stock exchanges should be strengthened so as to increase integrability among them and enable cross-border electronic trading in the future.

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## ANNEX I - STATISTICAL ANNEX

Table A.1: Number of Listed Companies in OIC Markets, 2000-2004

(End of period levels)

		2000	2001	2002	2003	2004
Azerbaijan	Baku SE		0	0	0	47
	Baku Interbank Currency Exch.		0	0	0	42
Bahrain	Bahrain SE	41	41	40	44	44
Bangladesh	Chittagong SE	164	177	185	195	201*
	Dhaka SE	241	249	260	267	267*
Côte d'Ivoire	B.Régionale des Valeurs Mobilières	41	38	38	38	46
Egypt	Cairo and Alexandria SE	1,071	1,110	1,151	978	795
Indonesia	Jakarta SE	290	316	331	333	333
	Surabaya SE		205	205	210	206
Iran	Tehran SE	304	316	327	370	411
Iraq	Iraq SE					74
Jordan	Amman SE	163	208	212	207	212
Kazakhstan	Kazakhstan SE		60	50	102	68
Kuwait	Kuwait SE	86	88	95	108	108
Kyrgyzstan	Kyrgyz SE		295	263	188	240
Lebanon	Beirut SE	13	14	13	14	16
Malaysia	Bursa Malaysia	795	804	865	902	902
Morocco	Casablanca SE	54	55	55	52	52
Mozambique	Maputo SE			40	40	40
Nigeria	Nigerian SE	195	194	195	195	195
Oman	Muscat Securities Market	131	225	220	106	122
Pakistan	Karachi SE	762	747	711	701	661
	Lahore SE.		613	569	559	527
Palestine	Palestine Securities Exchange	24	24	24	20	24
Qatar	Doha Securities Market	24	24	25	28	30
Saudi Arabia	Tadawul (Saudi SE)	75	76	68	70	70
Sudan	Khartoum SE <sup>a</sup>	45	45	46	47	47
Tunisia	Tunis SE	44	45	46	45	45
Turkey	Istanbul SE	315	310	288	285	297
U.A.E.	Abu Dhabi SE		0	24	30	35
	Dubai Fin. Market				12	13
Uzbekistan	Toshkent Republican SE	496	605	574	478	145
<b>OIC TOTAL</b>		5,374	6,884	6,920	6,624	6,315
		<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004*</b>
Japan <sup>b</sup>	Tokyo Stock Exchange			2112	2132	2205
UK <sup>c</sup>	London Stock Exchange	2801	2922	2879	2777	2693
US <sup>d</sup>	NYSE	2862	2798	2783	2750	2747

Notes: (#) Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo operate under the same regional stock exchange.

\* June 2004.

(a) Khartoum Stock Exchange (KSE), The Ninth Annual Report, 2003.

(b) Tokyo Stock Exchange, Annual Report, 2004.

(c) London Stock Exchange, Annual Report, 2004 (Years ending on 31 March).

(d) www.nysedata.com.

**Table A.2: OIC Markets Capitalisation, 2000-2004**

(US\$ million, end of period levels)

		2000	2001	2002	2003	2004
Algeria	Bourse d'Alger	0.0	0.0	0.0	143.6	140.3
Bahrain	Bahrain SE	6,624.4	6,601.3	7,716.4	9,701.8	13,513.2
Bangladesh	Chittagong SE	942.5	959.7	1,029.6	1,452.6	2,143.9
	Dhaka SE	1,165.3	1,118.8	1,228.7	1,671.0	2,433.7
Côte d'Ivoire	B.Régionale des Valeurs Mobilières (#)	28,741.0	24,335.0	26,094.0	27,073.0	
Egypt	Cairo and Alexandria SE	30,791.2	24,404.0	26,415.4	27,954.9	37,579.7
Indonesia	Jakarta SE	30.8	23.0	28.6	53.5	
	Surabaya SE		19,059.9	24,389.8	47,054.4	65,165.8
Iran	Tehran SE		9,698.9	14,344.4	34,443.6	46,995.1
Jordan	Amman SE	4,943.2	6,314.1	7,087.0	10,962.9	18,383.4
Kazakhstan	Kazakhstan SE	1,342.0	1,203.5	1,341.0	2,424.6	2,940.7
Kuwait	Kuwait SE	19,848.0	26,661.7	35,098.9	59,528.0	73,580.5
Kyrgyzstan	Kyrgyz SE		0.0	23.2	30.7	34.7
Lebanon	Beirut SE	1,583.0	1,248.0	1,395.0	1,503.0	2,331.0
Malaysia	Bursa Malaysia	116,935.0	120,007.0	123,872.0	168,376.0	181,623.8
Morocco	Casablanca SE	10,875.8	9,030.8	8,564.2	13,050.2	25,174.9
Nigeria	Nigerian SE	4,237.0	5,404.0	5,740.0	9,494.0	
Oman	Muscat Securities Market	3,518.1	2,634.4	5,268.1	7,246.2	9,317.7
Pakistan	Karachi SE		4,944.0	1,020.4	16,578.6	28,965.6
	Lahore SE.		4,724.1	10,179.1	16,335.0	28,232.1
Palestine	Palestine Securities Exchange		722.6	576.6	650.5	1,096.5
Qatar	Doha Securities Market	5,152.0		10,567.0	26,703.0	40,412.0
Saudi Arabia	Tadawul (Saudi SE)	67,166.0	73,201.4	74,851.4	157,306.4	306,255.7
Sudan	Khartoum SE <sup>a</sup>				746.6	2,058.4
Tunisia	Tunis SE	2,809.1	2,229.6	2,125.7	2,439.6	2,574.5
Turkey	Istanbul SE	69,659.0	47,688.7	34,401.5	69,002.8	98,073.0
U.A.E.	Abu Dhabi SE			20,375.8	30,363.2	55,488.4
	Dubai Fin. Market	5,871.8	7,907.2	9,515.0	14,297.1	35,090.9
Uganda	Uganda Securities Exchange		155.8	252.6	728.3	
Uzbekistan	Toshkent Republican SE		27.9	31.2	14.1	4.3
<b>OIC TOTAL</b>		382,235.2	400,305.4	453,532.6	757,329.2	1,079,609.8
		<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004*</b>
Japan <sup>b</sup>	Tokyo Stock Exchange	3,200,000	2,300,000	2,100,000	3,000,000	3,200,000
UK <sup>b</sup>	London Stock Exchange	2,600,000	2,100,000	1,800,000	2,400,000	2,600,000
US <sup>b</sup>	NYSE	11,400,000	11,000,000	9,400,000	11,300,000	11,800,000

Notes: (#) Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo operate under the same regional stock exchange.

\* October 2004.

(a) Khartoum Stock Exchange (KSE), The Ninth Annual Report, 2003.

(b) www.nysedata.com.

**Table A.3: Value Traded in OIC Markets, 2000-2004**

(US\$ million, end of period levels)

		2000	2001	2002	2003	2004
Algeria	Bourse d'Alger				0.2	
Bahrain	Bahrain SE	245.4	250.4	206.3	261.1	
Côte d'Ivoire	B.Régionale des Valeurs Mobilières (#)	33.0	6.0			
Egypt	Cairo and Alexandria SE	11,798.6	5,912.9	6,443.7	4,349.1	
Iran	Tehran SE	14,311.0	9,667.0			
Jordan	Amman SE	405.9	934.4	1,334.7	2,607.1	
Kuwait	Kuwait SE	4,208.5	11,711.2	22,123.5	54,728.9	
Lebanon	Beirut SE	118.0	53.0	118.9	131.0	197.9
Malaysia	Bursa Malaysia	58,500.0	70,772.0			
Morocco	Casablanca SE	1,210.9	840.8	1,440.5	2,443.5	
Nigeria	Nigerian SE	263.0	496.0			
Oman	Muscat Securities Market	551.4	419.9	581.7	1,334.3	
Palestine	Palestine Securities Exchange	189.0	75.0			
Qatar	Doha Securities Market			883.1	3,220.2	
Saudi Arabia	Tadawul (Saudi SE)	17,313.5	22,223.4	30,974.5	159,055.6	
Sudan	Khartoum SE <sup>a</sup>				67.2	
Tunisia	Tunis SE	686.8	342.1	246.5	188.5	
Turkey	Istanbul SE	181,934.0	80,400.0	70,756.0	100,165.0	147,755.0
U.A.E.	Abu Dhabi SE			363.1	1,003.9	
U.A.E.	Dubai Fin. Market	118.9	267.1	687.9	1,026.8	13,737.0
Uzbekistan	Toshkent Republican SE	19.0				
<b>OIC TOTAL</b>		291,906.9	204,371.2	136,160.4	330,582.4	161,689.9
		<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004*</b>
Japan <sup>b</sup>	Tokyo Stock Exchange	2,300,000	1,700,000	1,600,000	2,000,000	3,200,000
UK <sup>b</sup>	London Stock Exchange	4,600,000	4,600,000	4,100,000	3,600,000	5,100,000
US <sup>b</sup>	NYSE	11,100,000	10,500,000	10,300,000	9,700,000	11,400,000

Notes: (#) Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo operate under the same regional stock exchange.

\*October 2004.

(a) Khartoum Stock Exchange (KSE), The Ninth Annual Report, 2003.

(b) www.nysedata.com.

**Table A.4: OIC Exchanges**

Albania	Tirana SE	<a href="http://www.asc.gov.al/tiranastock.html">http://www.asc.gov.al/tiranastock.html</a>
Algeria	Bourse d'Alger	-
Azerbaijan	Baku SE	<a href="http://www.bse.az">http://www.bse.az</a>
	Baku Interbank Currency Exchange	<a href="http://www.bbvb.org">http://www.bbvb.org</a>
Bahrain	Bahrain SE	<a href="http://www.bahrainstock.com">http://www.bahrainstock.com</a>
Bangladesh	Chittagong SE	<a href="http://www.csebd.com">http://www.csebd.com</a>
	Dhaka SE	<a href="http://www.dsebd.org">http://www.dsebd.org</a>
Benin	Bourse Régionale des Valeurs Mobilières*	<a href="http://www.brvm.org">http://www.brvm.org</a>
Burkina Faso	Bourse Régionale des Valeurs Mobilières*	<a href="http://www.brvm.org">http://www.brvm.org</a>
Cameroon	Douala SE	-
Côte d'Ivoire	Bourse Régionale des Valeurs Mobilières*	<a href="http://www.brvm.org">http://www.brvm.org</a>
Egypt	Cairo and Alexandria SEs	<a href="http://www.egyptse.com">http://www.egyptse.com</a>
Guinea-Bissau	Bourse Régionale des Valeurs Mobilières*	<a href="http://www.brvm.org">http://www.brvm.org</a>
Indonesia	Jakarta SE	<a href="http://www.jsx.co.id">http://www.jsx.co.id</a>
	Surabaya SE	<a href="http://www.bes.co.id">http://www.bes.co.id</a>
	Jakarta Futures Exchange	<a href="http://www.bbj-jfx.com">http://www.bbj-jfx.com</a>
Iran	Tehran SE	<a href="http://www.tse.ir">http://www.tse.ir</a>
Iraq	Iraq SE	<a href="http://www.isx-iq.net">http://www.isx-iq.net</a>
Jordan	Amman SE	<a href="http://www.ase.com.jo">http://www.ase.com.jo</a>
Kazakhstan	Kazakhstan SE	<a href="http://www.kase.kz">http://www.kase.kz</a>
Kuwait	Kuwait SE	<a href="http://www.kuwaitse.com">http://www.kuwaitse.com</a>
Kyrgyz Rep.	Kyrgyz SE	<a href="http://www.kse.kg">http://www.kse.kg</a>
Lebanon	Beirut SE	<a href="http://www.bse.com.lb">http://www.bse.com.lb</a>
Malaysia	Bursa Malaysia	<a href="http://www.klse.com.my">http://www.klse.com.my</a>
Mali	Bourse Régionale des Valeurs Mobilières*	<a href="http://www.brvm.org">http://www.brvm.org</a>
Morocco	Casablanca SE	<a href="http://www.casablanca-bourse.com">http://www.casablanca-bourse.com</a>
Mozambique	Maputo SE	-
Niger	Bourse Régionale des Valeurs Mobilières*	<a href="http://www.brvm.org">http://www.brvm.org</a>
Nigeria	Nigerian SE	<a href="http://www.nigerianstockexchange.com">http://www.nigerianstockexchange.com</a>
Oman	Muscat Securities Market	<a href="http://www.msm.gov.om">http://www.msm.gov.om</a>
Pakistan	Islamabad SE	<a href="http://www.ise.com.pk">http://www.ise.com.pk</a>
	Karachi SE	<a href="http://www.kse.net.pk">http://www.kse.net.pk</a>
	Lahore SE	<a href="http://www.lahorestock.com">http://www.lahorestock.com</a>
Palestine	Palestine Securities Exchange	<a href="http://www.p-s-e.com">http://www.p-s-e.com</a>
Qatar	Doha Securities Market	<a href="http://www.dsm.com.qa">http://www.dsm.com.qa</a>
Saudi Arabia	Saudi SE (Tadawul)	<a href="http://www.tadawul.com.sa">http://www.tadawul.com.sa</a>
Senegal	Bourse Régionale des Valeurs Mobilières*	<a href="http://www.brvm.org">http://www.brvm.org</a>
Sudan	Khartoum SE	<a href="http://www.ksesudan.com">http://www.ksesudan.com</a>
Togo	Bourse Régionale des Valeurs Mobilières*	<a href="http://www.brvm.org">http://www.brvm.org</a>
Tunisia	Tunis SE	<a href="http://www.bvmt.com.tn">http://www.bvmt.com.tn</a>
Turkey	Istanbul SE	<a href="http://www.ise.org">http://www.ise.org</a>
	Turkish Derivatives Exchange (VOBAS)	<a href="http://www.turkdex.net">http://www.turkdex.net</a>
Turkmenistan	State Commodity and Raw Materials Exchange	<a href="http://www.turkmenbusiness.org">http://www.turkmenbusiness.org</a>
U.A.E.	Abu Dhabi Securities Market	<a href="http://www.adsm.co.ae">http://www.adsm.co.ae</a>
	Dubai Financial Market	<a href="http://www.dfm.co.ae">http://www.dfm.co.ae</a>
Uganda	Uganda Securities Exchange	<a href="http://www.use.or.ug">http://www.use.or.ug</a>
Uzbekistan	Toshkent Republican SE	<a href="http://www.uzse.uz">http://www.uzse.uz</a>
	Uzbekistan Republican Currency Exchange	-

Notes: (\*) The establishment of an organised financial market was provided for in the treaty of 14 November 1973 forming the West African Monetary Union (WAMU), initially made up of seven countries (Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo). The Union recently expanded with the addition of the eighth member, Guinea-Bissau.

## ANNEX II

### OVERVIEW OF SELECTED STOCK EXCHANGES IN THE OIC COUNTRIES

#### ISTANBUL STOCK EXCHANGE (ISE)

The Istanbul Stock Exchange (ISE) which became operational in early 1986 is the only securities exchange in Turkey. Traded securities include equities, government bonds and treasury bills, money market instruments (repo/reverse repo), revenue-sharing certificates, private sector bonds as well as international securities. The ISE is an autonomous and self-regulated professional organisation. It has partnership in the capital of the Settlement and Custody Bank (Takasbank) which is the central securities depository of Turkey, the clearing and settlement centre for securities transactions and the national numbering agency of Turkey (ISE, March 2005). The ISE's functions are, inter alia, to:

- Examine the application of the securities to be listed and make a decision;
- Launch the Derivates Market in compliance with the regulations;
- Open markets for the securities to be traded on the Exchange;
- Disclose information about traded securities on its regular publications;
- Assure the trading of securities in a reliable and stable environment under free competition; and
- Take the necessary precautions in line with the rules and regulations in case of extraordinary adverse developments on the Exchange.

Within the framework of its efforts to support the development of Central Asian capital markets and stock exchanges, the ISE participated in the capital of the Kyrgyz Stock Exchange and the Baku Stock Exchange. It signed cooperation Protocols and Memorandums of Understanding (MoUs) with the Toshkent Republican Stock Exchange (Uzbekistan), Kazakhstan Stock Exchange, Kyrgyz Stock Exchange, Baku Stock Exchange (Azerbaijan) as well as with the London Stock Exchange. The ISE also initiated on 16 May 1995 the setting up of the Federation of Euro-Asian Stock Exchanges (FEAS) with 12 founding members. Today, the Federation has 28 members of which 16 are

exchanges from the OIC countries. Membership is open to emerging exchanges located in Europe and Asia. Its member exchanges have a total market capitalisation of US\$ 200 billion on an average daily traded stock volume US\$ 845 million.

### **CAIRO AND ALEXANDRIA STOCK EXCHANGES (CASE)**

The establishment of the Cairo and Alexandria Stock Exchanges goes back to the 19<sup>th</sup> century. Alexandria's futures market is one of the oldest in the world. The introduction of the first phase of the Egyptian Privatisation Program on the Exchange in 1996 also contributed to its development. Among the CASE investments is Misr Clearing, Settlement and Central Depository (MCSD), established in 1996, which is the Central Depository of Egypt authorised to perform clearing and settlement transactions of all the stocks traded on Cairo and Alexandria Stock Exchanges. In 1999, the CASE established the Egypt Information Dissemination Company (EGID) for the purpose of disseminating information to the market and initiated the implementation of the new automated trading system. In 2000, a Settlement Guarantee Fund was instituted to ensure the timely settlement of transactions taking place in the Exchange.

Today, the CASE intends to be one of the core financial centres in the Middle East and North Africa Region. To this end, it aims to adopt new technologies, improve its products and services and form alliances with other exchanges.

The CASE is a member of various international associations of stock exchanges, such as the World Federation of Exchanges, Federation of Euro-Asian Stock Exchanges (FEAS), African Stock Exchanges Association (ASEA) and the Union of Arab Stock Exchanges. It also signed agreements with various Arab stock exchanges, including those of Bahrain, Amman, Kuwait, Lebanon and Tunis, and Memorandums of Understanding (MoUs) with various exchanges including those in Korea, London, Madrid, Nigeria, Johannesburg, Kuala Lumpur, Malta, Hong Kong, Casablanca, Thessaloniki and the National Stock Exchange of India.

### **KHARTOUM STOCK EXCHANGE (KSE)**

The idea of establishing a stock exchange in the Sudan started to develop in 1962 when the Bank of Sudan and the Ministry of Finance commenced studying the various facets of a stock exchange. In this

connection, the Stock Exchange Act was endorsed by the People's Assembly in 1982 to establish a regulated market for stock exchange.

However, the concrete steps towards the establishment of a financial market in the Sudan could only be taken in August 1992 within the framework of the economic liberalisation programme, namely the Three-Year Salvation Programme (1990-1993). In the same year, a Board for the stock exchange was formed and a Decree was issued to amend the 1982 Act. However, because that amendment did not cover all the required objectives to establish the stock exchange, in 1994, the Transitional National Assembly enacted the Act of Khartoum Stock Exchange.

The Primary Market Operations started on 10 October 1994 and the opening up of the secondary market followed it on 2 January 1995. Now, the Khartoum Stock Exchange is operating under two main sections: The Primary Market and the Secondary Market. The former is the market in which the issues for stock exchange are presented for public subscription within the stipulated acts, rules and regulations. The latter is the market where the market transactions are conducted through the agents and the transfer of stock ownership is realised. Whereas the activity at the secondary market started with 24 public shareholding companies, the number of listed companies increased to 47 by the end of 2003.

#### **KUALA LUMPUR STOCK EXCHANGE (KLSE)**

The securities market in Malaysia came into existence in the late 19<sup>th</sup> century parallel to the operations of the British companies in the rubber and tin industries. Yet, the formal trading of shares began on 9 May 1960 with the establishment of the Malayan Stock Exchange. In 1965, the stock exchange was renamed as the Stock Exchange of Malaysia and Singapore (SEMS). In 1973, the SEMS was separated into two bodies: the Kuala Lumpur Stock Exchange Bhd (KLSEB) and the Stock Exchange of Singapore (SES). In the same year, a new company, the Kuala Lumpur Stock Exchange (KLSE) took over the operations of the KLSEB, and the Securities Industry Act 1973 (SIA) entered into force. In 1990, the Singapore companies were delisted from the KLSE, and vice-versa. The Malaysian Central Depository was set up and mandated to operate the Central Depository System (CDS). The Fixed

Delivery and Settlement System (FDSS) was also introduced to improve the efficiency of the clearing and settlement system. In April 2004, the KLSE changed its name to Bursa Malaysia.

### **SAUDI STOCK MARKET (TADAWUL)**

Following the rapid economic expansion and Saudisation of foreign banks in the 1970s, a number of large corporations and joint venture banks were established. An informal stock market was also formed during that period. In 1984, a Ministerial Committee composed of the Ministry of Finance and National Economy, the Ministry of Commerce and the Saudi Arabian Monetary Agency (SAMA) was set up to regulate and develop the stock market. Additionally, the SAMA was mandated with the regulation of the market. With the aim of improving the regulatory framework, only the commercial banks were allowed to trade shares. In the same year, they established the Saudi Share Registration Company (SSRC) with the aim of providing central registration facilities for joint stock companies and settling and clearing all equity transactions. Furthermore, an automated clearing and settlement facility was launched in 1989. The Electronic Securities Information System (ESIS), developed and operated by the SAMA, became operational in 1990. The new securities trading, clearing and settlement system, "Tadawul", was introduced in October 2001.

Tadawul is the new service for trading, clearing and settlement of shares in the Kingdom. It provides an efficient and short trading cycle. Investors may only trade through the banks where they have opened accounts. It supports the full range of depository functions, accurate and speedy settlement and transfer of ownership immediately after the transaction. An increase in the number of shares resulting from a corporate decision is immediately reflected in the account. Cash dividends can be deposited directly in the bank account designated by the investor. It aims to achieve transparency through instantaneously publishing market prices and companies' information. It also ensures fairness by providing equal access to the market for all investors.

### **BAHRAIN STOCK EXCHANGE (BSE)**

The Bahrain Stock Exchange (BSE) commenced operations on 17 June 1989. Since then, it has expanded continuously and become one of the leading emerging stock markets in the Gulf region. In 1997, the BSE's



Board of Directors adopted a strategy to develop and expand its operations through increasing its competitiveness towards attracting investors. In line with this strategy and following an Amiri Decree in 1999, the market was further opened up to foreign investors. As a result, the contribution of GCC investors to trading increased from 16.4 percent in 1998 to 23 percent in 2000, and non-GCC investors up from 1.5 percent in 1998 to 9 percent in 2000, respectively. Foreign brokerage firms were allowed to operate independently in Bahrain.

Securities on the Bahrain Stock Exchange are transferred in electronic book-entry between sellers and buyers through the broker dealers via the Central Depository System. To become a leading stock exchange in the region, the BSE has enhanced its legal infrastructure and concentrated its efforts on implementing the International Organisation of Securities Commissions' (IOSCO) disclosure standards, as well as other standards used in international stock markets. Furthermore, it aims to establish an effective issuing, trading and settlement regime supported by the latest technology and to operate in a completely transparent environment with timely dissemination of information for all.

### **TEHRAN STOCK EXCHANGE (TSE)**

Following the enactment of the Stock Exchange Act in 1967, the Tehran Stock Exchange opened in April 1968. Initially only Government bonds and certain State-backed certificates were traded in the market. Since 1989, following the privatisation of the state-owned enterprises and promotion of private sector economic activity in accordance with the First Five-year Development Plan of Iran, the Tehran Stock Exchange has expanded continuously.

The TSE Council is the highest authority in the stock exchange. State officials as well as private sector representatives and specialists are members of the Council. The Governor of the Central Bank presides over the Council. A Central Depository System (CDS) is operating in the TSE and an automated clearing process is implemented. The TSE Services Company (TSESC), who is in charge of the computerised site, supplies computer services. Presently, the TSE trades mainly in securities offered by listed companies.

The TSE is a full member of the International Federation of Stock Exchanges (FIBV) and a founding member of the Federation of Euro-Asian Stock Exchanges (FEAS).