



Challenges facing

**Islamic finance**

in

Iran Capital Market



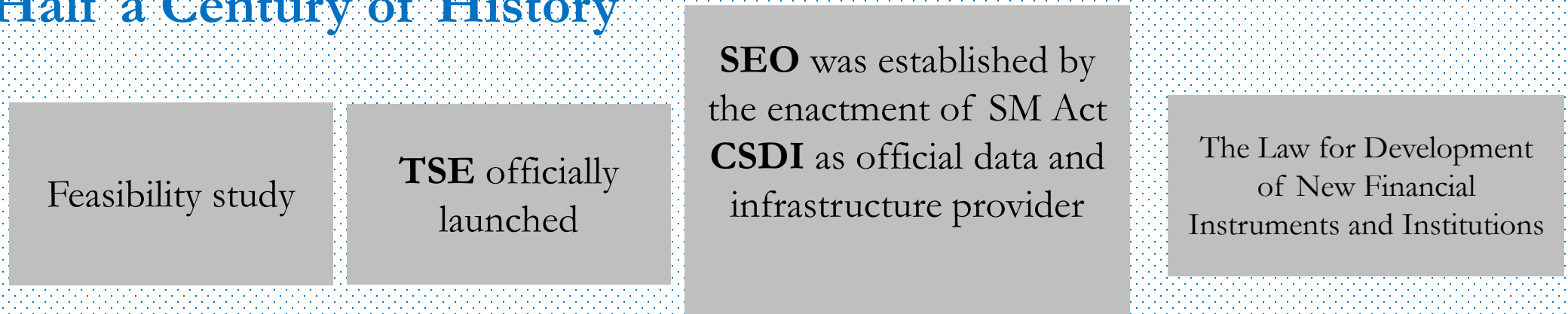
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# **History, Structure and Regulatory Environments**

# History

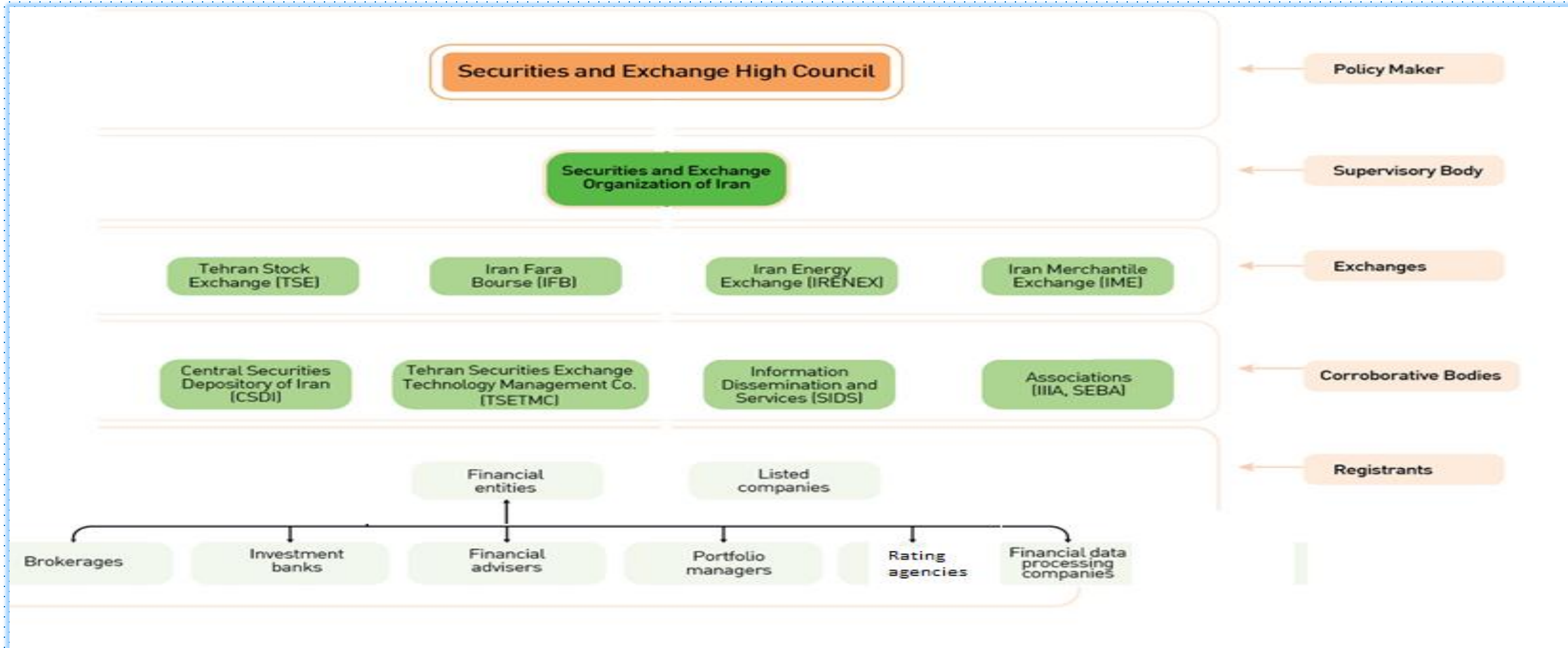
- Over Half a Century of History



**SEO**, sole regulatory and supervisory authority to Iran capital market  
**CSDI**, sole registry entity and custodian in the Iranian capital market.

# Market Structure

- Capital Market Structure



# Regulatory Environment

**Securities &  
Exchange High  
Council**

- Capital Market Macro-policymaker

**SEO  
(Capital Market)**

- Supervision
- Regulation

# Affiliated and Corroborative Bodies

## ❑ Corroborative Bodies



Central Securities Depository of Iran

[www.csdiran.com](http://www.csdiran.com)



Tehran Securities Exchange Technology Management

[www.tsetmc.com](http://www.tsetmc.com)



Information Dissemination and Services

[www.sidsco.ir](http://www.sidsco.ir)



Securities and Exchange Brokers Association

[www.seba.ir](http://www.seba.ir)



Iranian Institutional Investors Association

[www.iiia.ir](http://www.iiia.ir)

# Exchanges

- 2 equities (TSE, IFB) & 2 commodities (IME, IRENEX)



## Tehran Stock Exchange

- Equity Share
- Right Offering
- Sukuk
- Derivative (Futures contracts, Option Contracts)
- ETF
- Debt Securities (Participation Papers, Certificates of Deposit)



## Iran Fara Bourse

- Listing and IPOs
- Equity Trading
- SUKUK
- Islamic T-Bills
- Mortgage Rights
- MBS
- Funds (ETFs, ETCFs, VCFs)
- Intellectual Property Market
- Finstars
- CrowdFunding
- Private Market



## Iran Mercantile Exchange

- Industrial
- Oil & Petrochemical
- Agricultural
- Futures on Commodities
- Financial Contracts



## Iran Energy Exchange

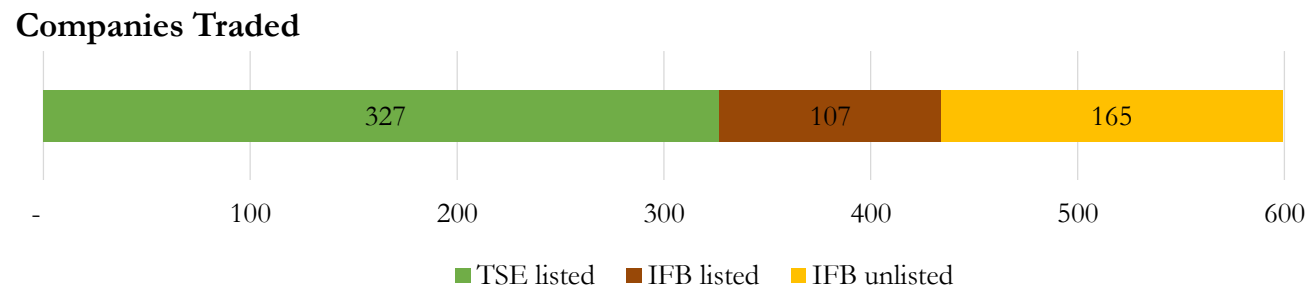
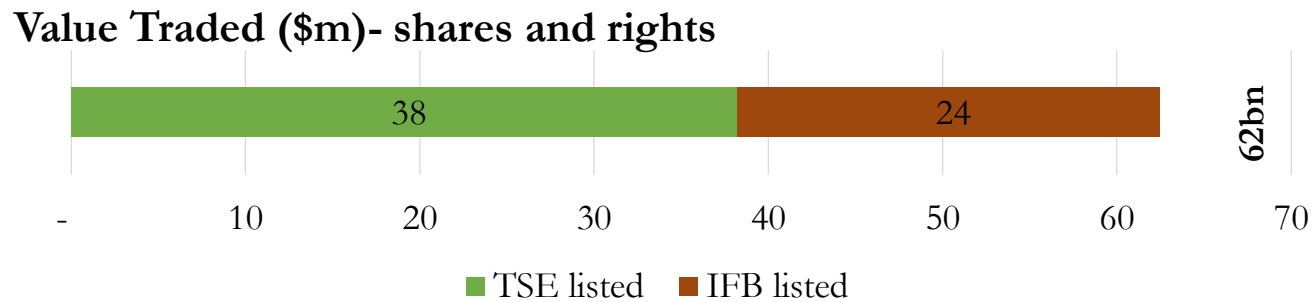
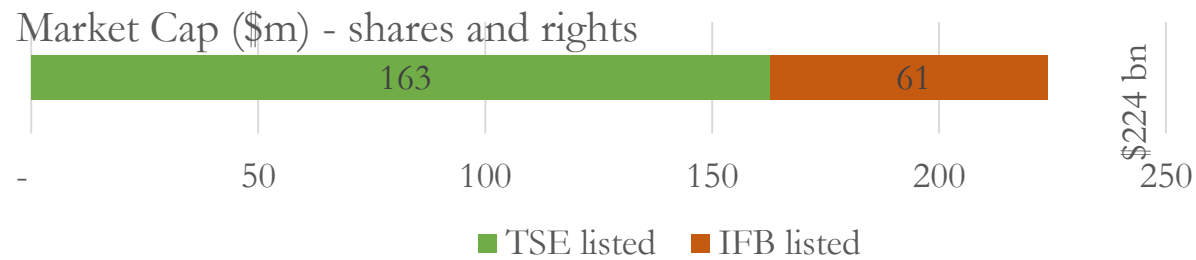
- Electricity
- Oil & Gas
- Other energy carriers
- Standard Parallel Salam (SPS)
- Futures
- Options
- Project Fund



# **A Brief Overview of the Securities Market**

# Equities

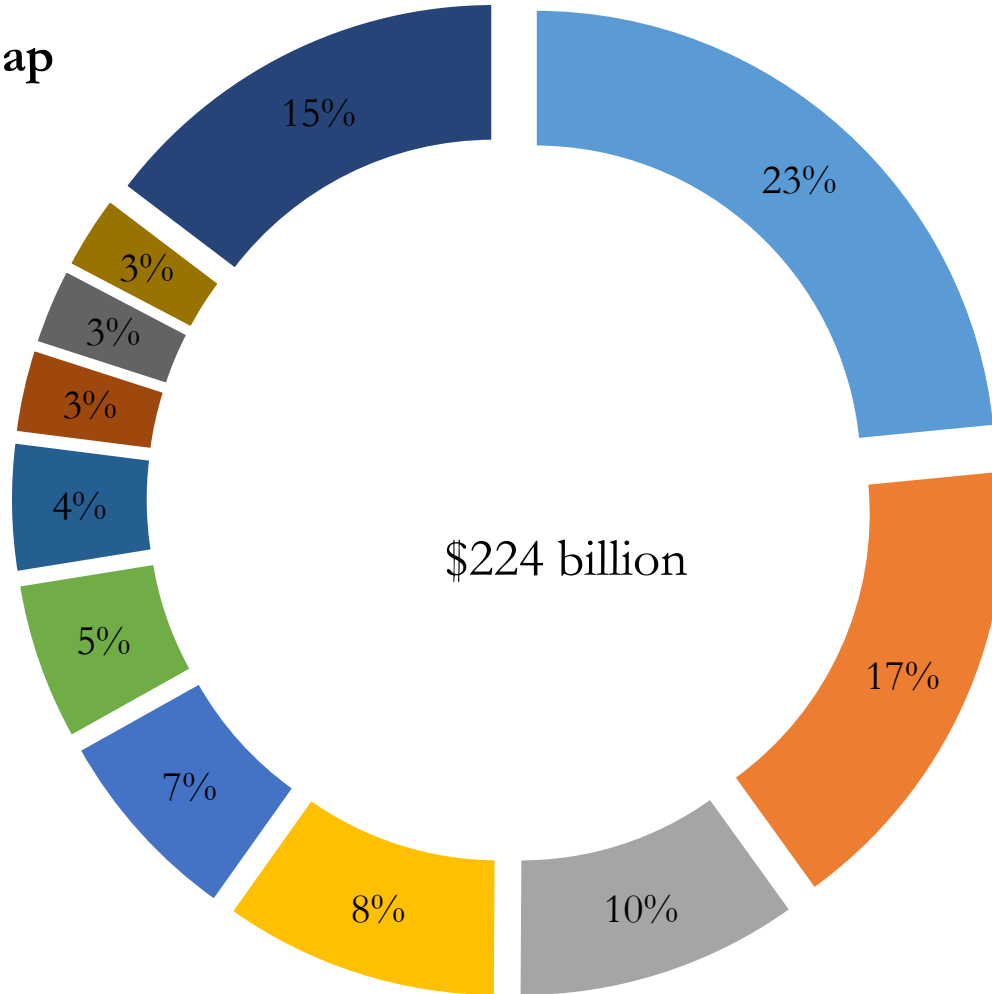
- ❑ Over 700 listed and registered companies
- ❑ last year (March 2018 to 19) trade value: \$62 billion
- ❑ Trade value/ Market Cap= 27%



# Equities

## 46 Industries in Exchanges

Market Cap



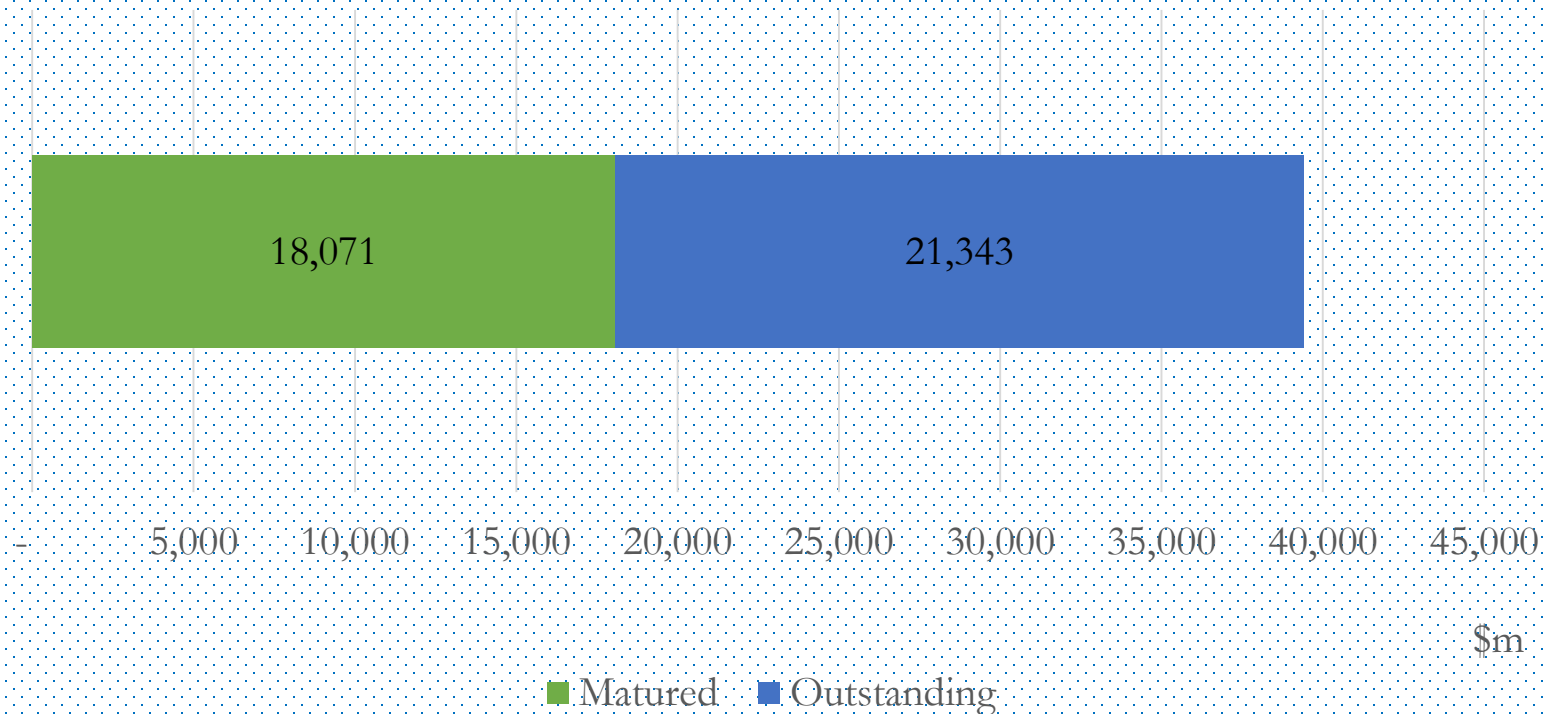
\$224 billion

- Chemical Products
- Base Metals
- Mining
- Refinery
- Banking
- Telecommunications
- Pharmaceuticals
- utilities
- Multidisciplinary
- Information Technology
- Others

# Shariah Compliant Securities

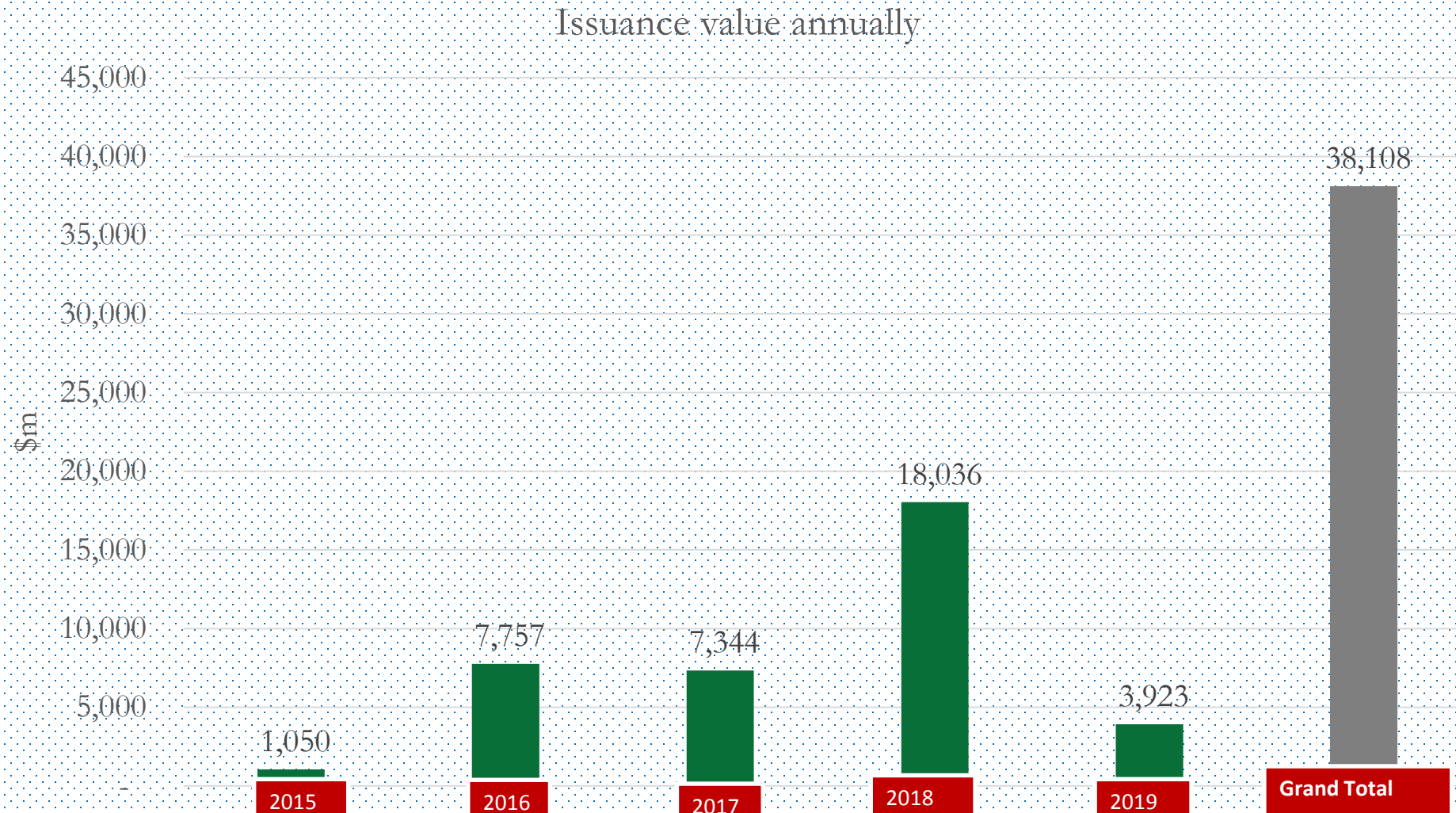
- ❑ Matured vs. outstanding value of **Sukuks**

Outstanding & matured



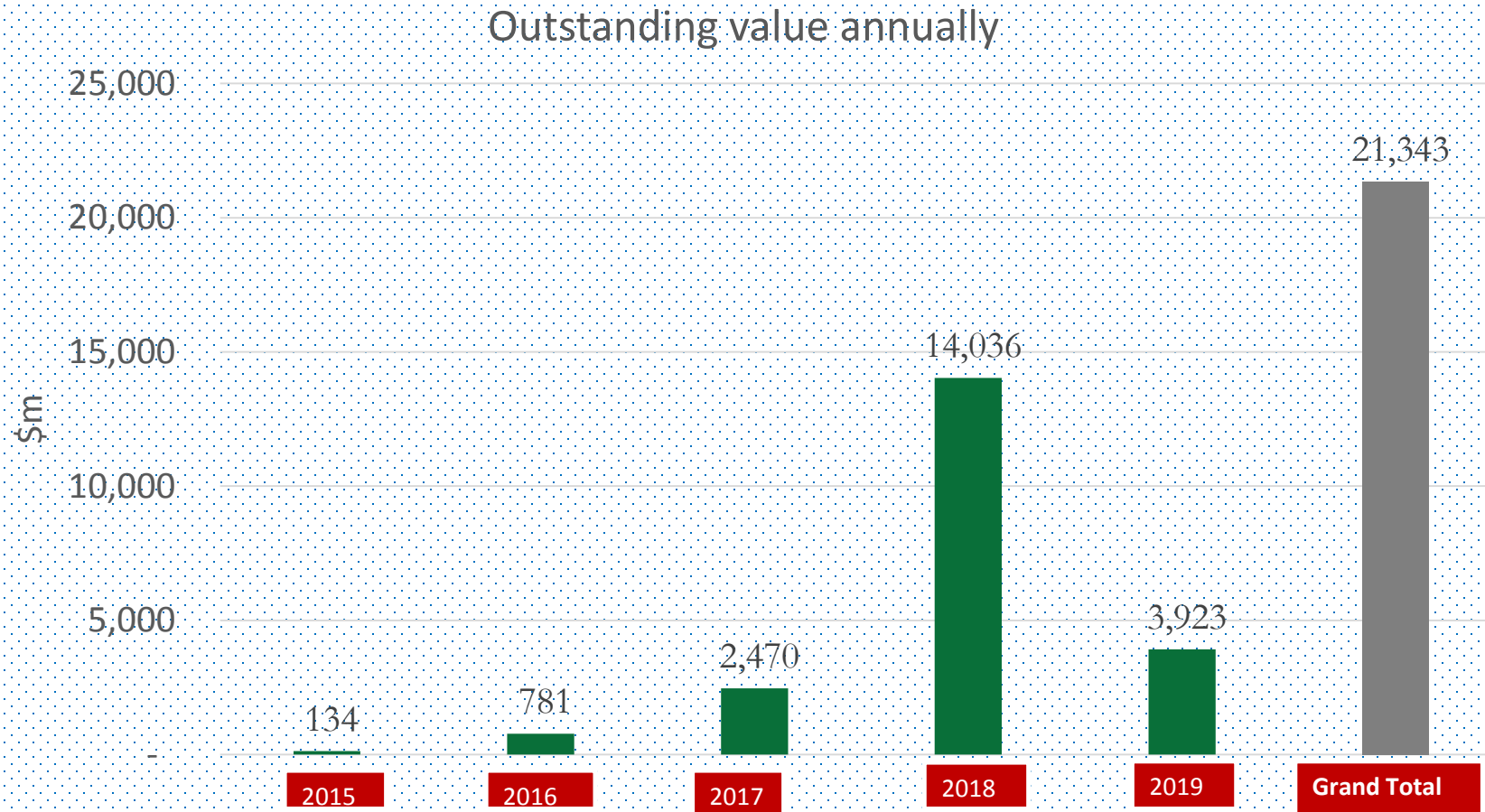
# Shariah Compliant Securities (contd.)

□ \$38 bn Sukuk issued since 2015



# Shariah Compliant Securities (contd.)

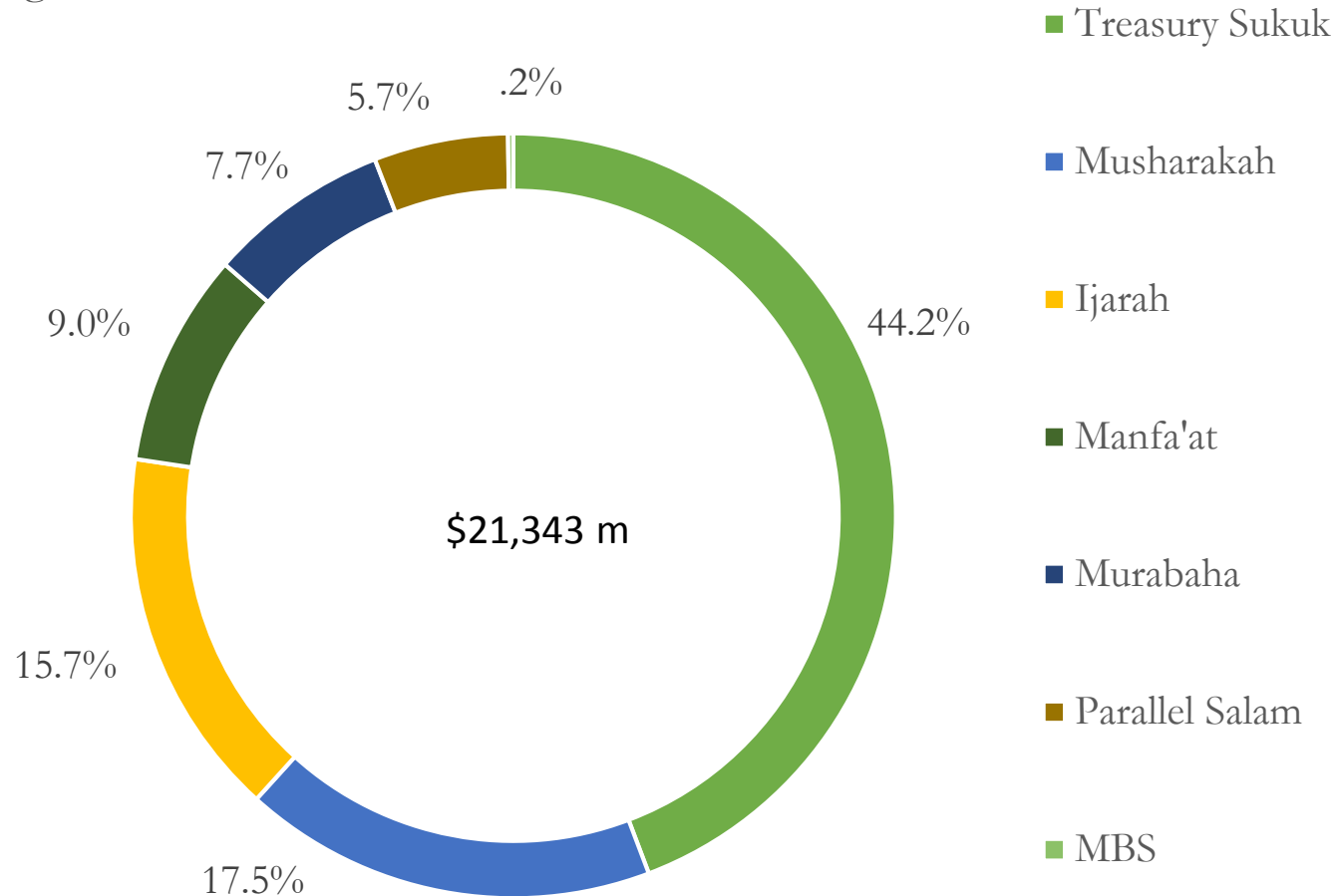
□ \$21.343 billion outstanding as of today



# Shariah Compliant Securities (contd.)

❑ \$21.343 billion outstanding Shariah-compliant Sukuk with virtually no default

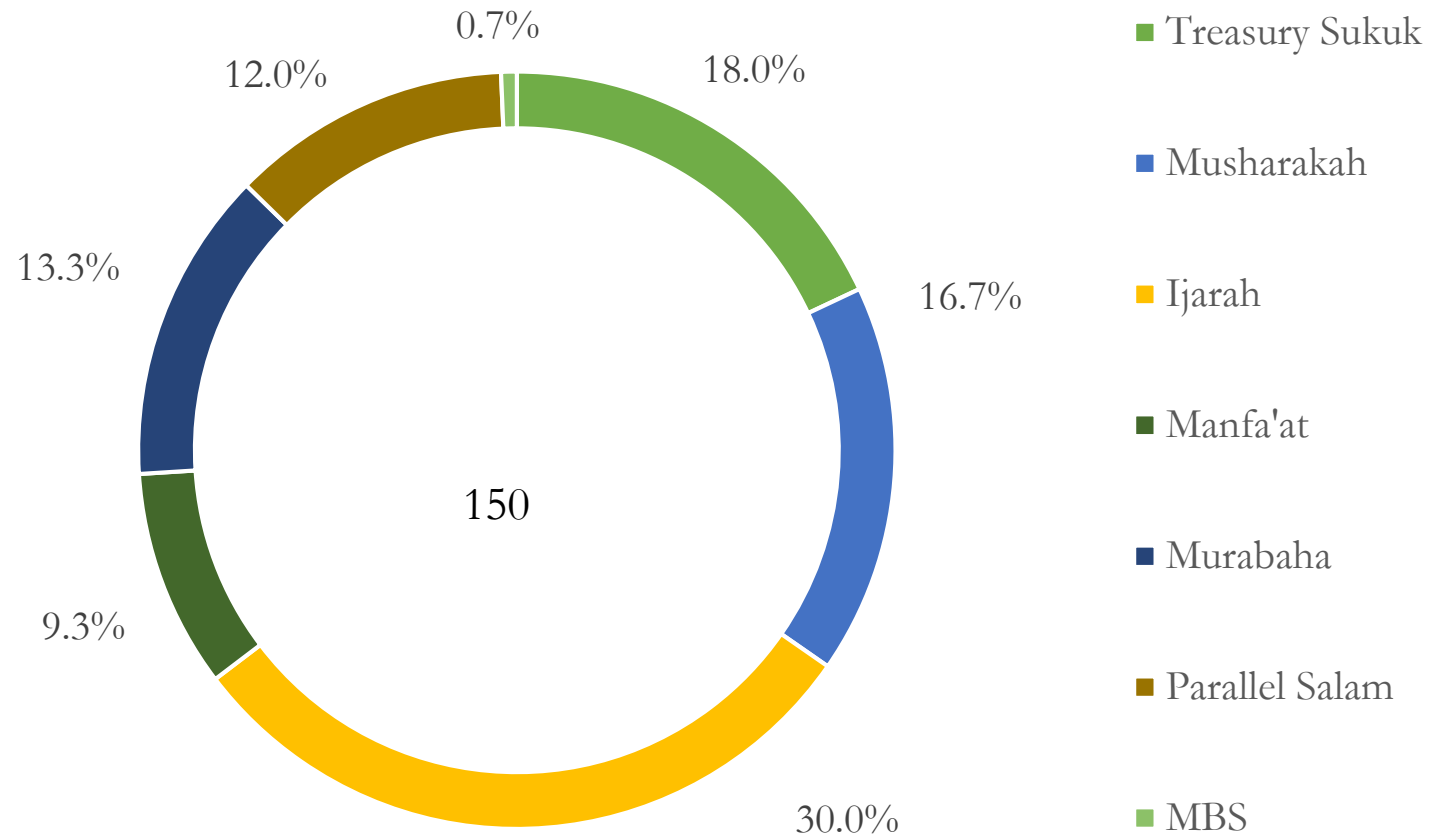
Outstanding value



## Shariah Compliant Securities (contd.)

□ No. of outstanding Sukuk in each type

Outstanding volume

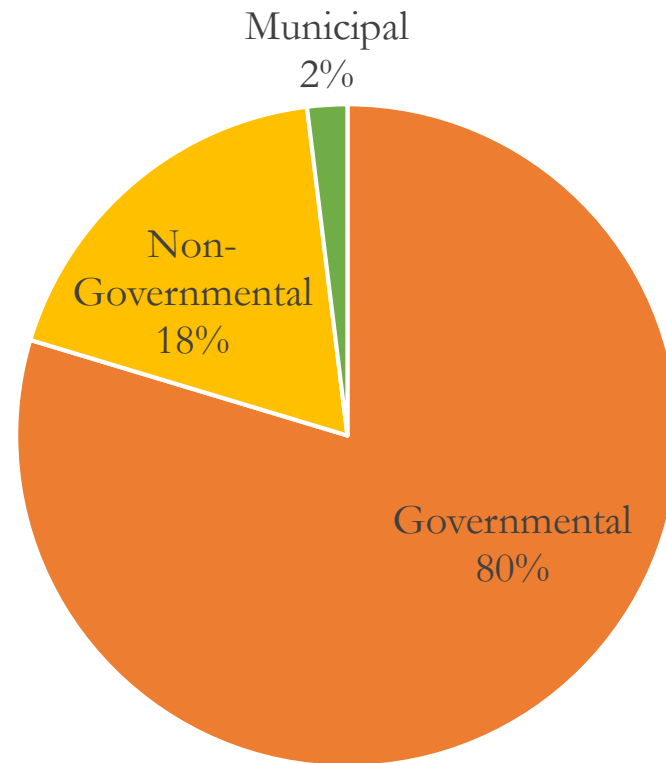




## Shariah Compliant Securities (contd.)

- ❑ Sukuks issued by both private and public sectors
- ❑ Sukuks highly liquid and guaranteed, though not yet rated

Type of Issuer

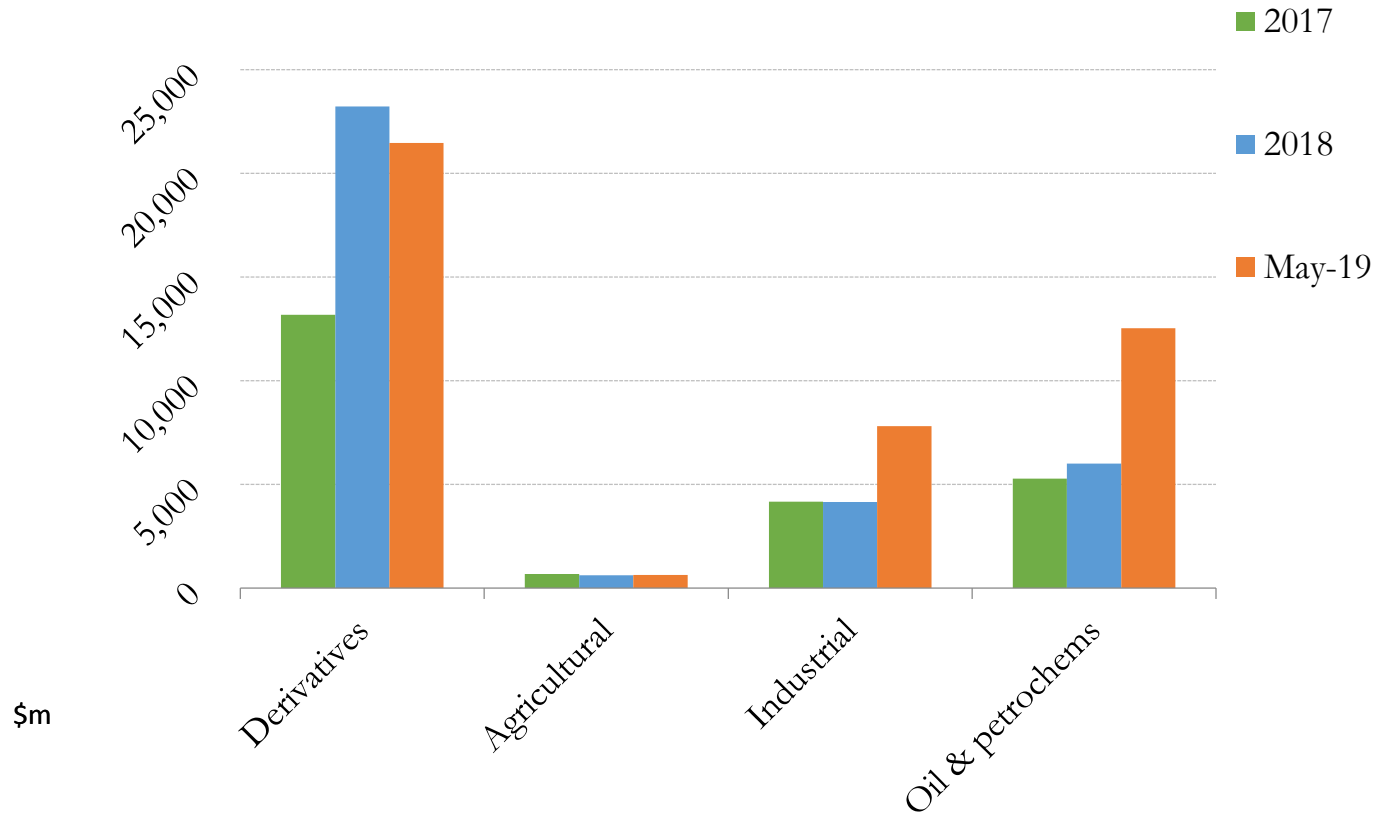


# Commodities

Iran Mercantile Exchange



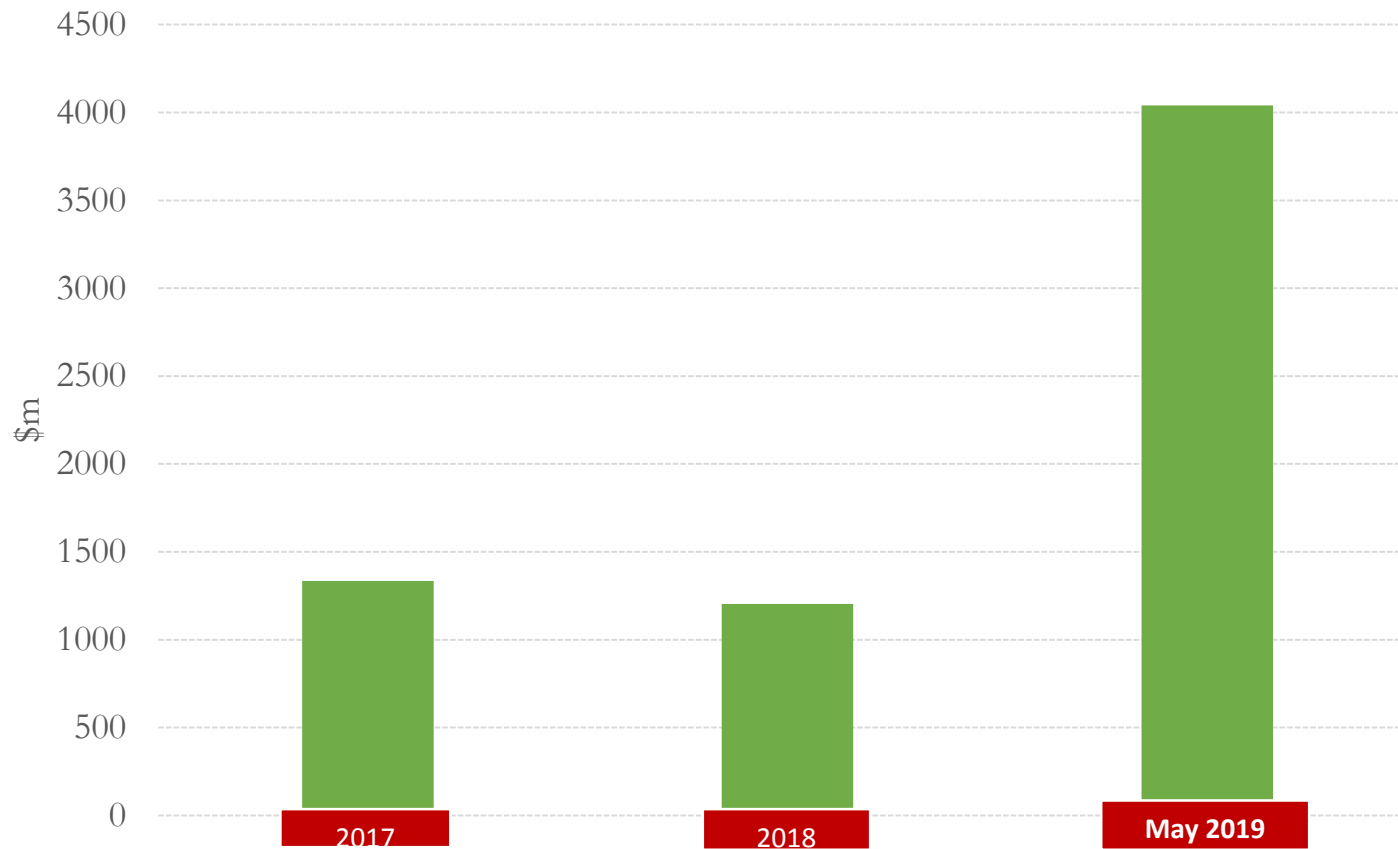
IME trade value



# Commodities (contd.)

Iran Energy Exchange

IRENEX trade value



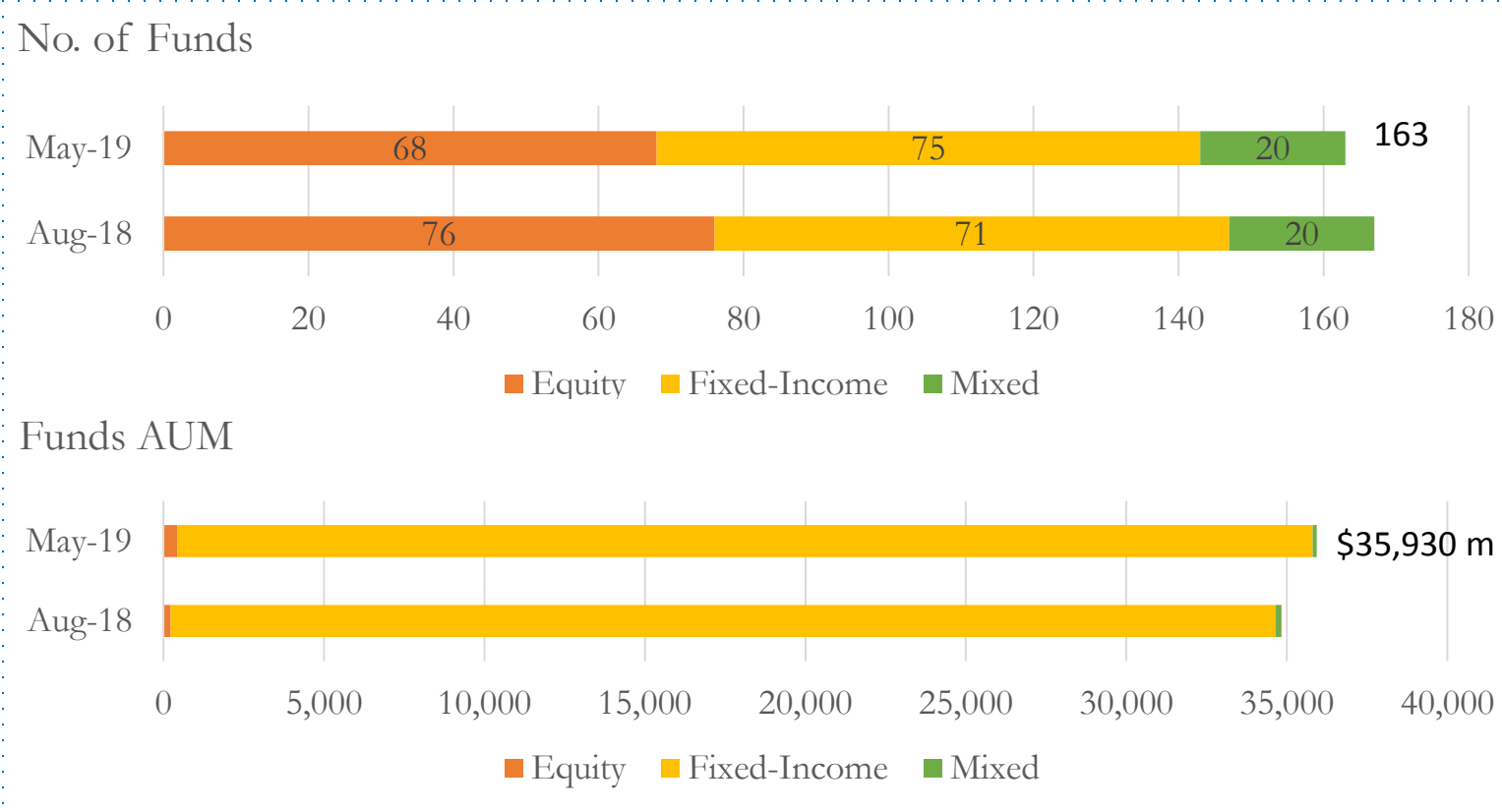
# **A Brief Overview of Financial Institutions**

# Financial Institutions

Companies & Financial Institutions	2018	2019
Funds	213	<b>215</b>
Brokerage firms	108	<b>108</b>
Investment banks	9	<b>10</b>
Financial advisers	17	<b>17</b>
Portfolio managers	14	<b>20</b>
Data processing companies	5	<b>5</b>
Investment companies	107	<b>109</b>
Holding Companies	83	<b>83</b>
Rating Agencies	1	<b>5</b>
Total	557	<b>572</b>

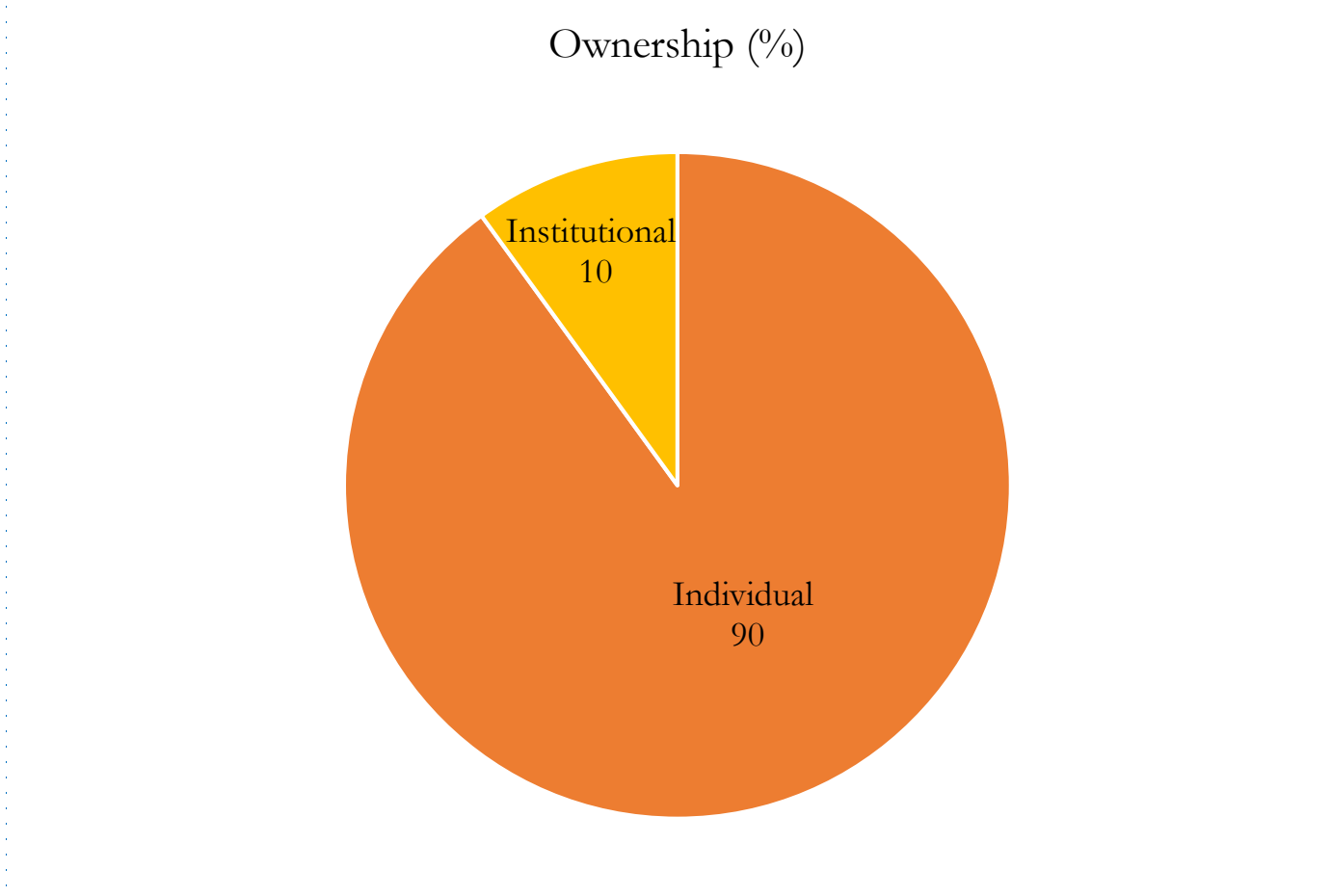
# Collective Investment Funds

- ❑ Open End and Closed End funds can be established;
- ❑ Different categories of funds such as Social Responsibility (endowment) funds, ETFs, commodity, construction, project and venture capital funds.



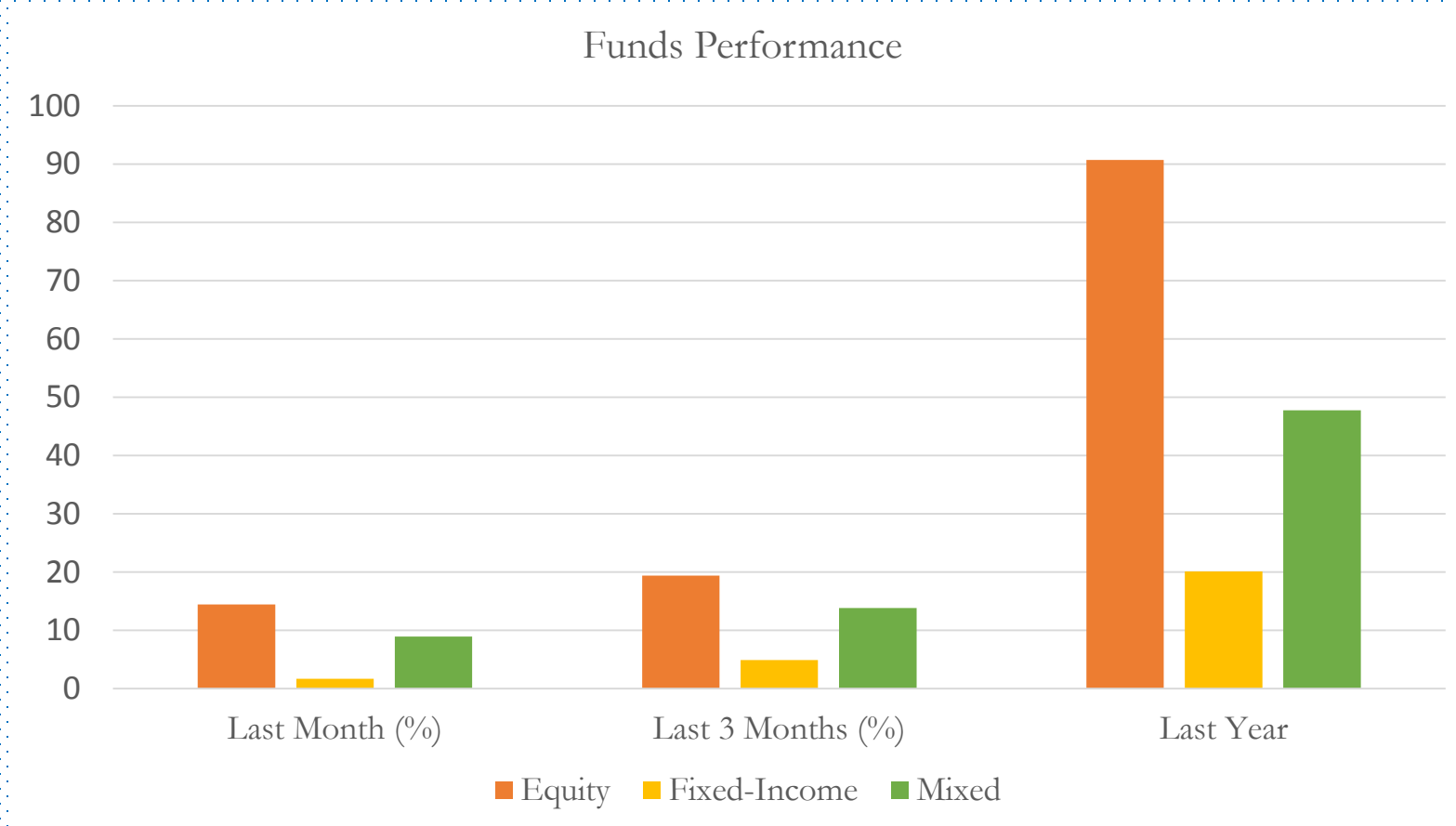
# Collective Investment Funds (contd.)

□ 2.14m individual and 5.2k institutional investors of funds



# Collective Investment Funds (contd.)

■ Considerable performance





# **A Brief Overview on Investor Protection**

# Investor Education, Financial Literacy & Capacity Building



- **FINEX:** *Annual Int'l Exhibition of Exchange, Bank & Insurance,*
- **Stars League:** *Competition among Universities,*
- **Press Festival:** *Media and Reporters Award,*
- **Publications:** *all levels from kindergarten to higher education*
- **Informative Animations**
- **IRVEX:** *a real time Virtual Exchange to learn how to trade*

# Legal Protection

## Complaint

- File complaints: [Shekayat.seo.ir](http://Shekayat.seo.ir)
- Follow up on complaints: [Samta.seo.ir](http://Samta.seo.ir)

## Rules and Regulations

- Investor protection rights: [Dadshahr.seo.ir](http://Dadshahr.seo.ir)
- Rules and regulations APP: [CMR.seo.ir](http://CMR.seo.ir)
- Foreign Investment Protection and Promotion Act (FIPPA)
- Bylaw Governing Foreign Investors in the Exchanges and OTC Markets

# Transparency

## Data Dissemination & Disclosure

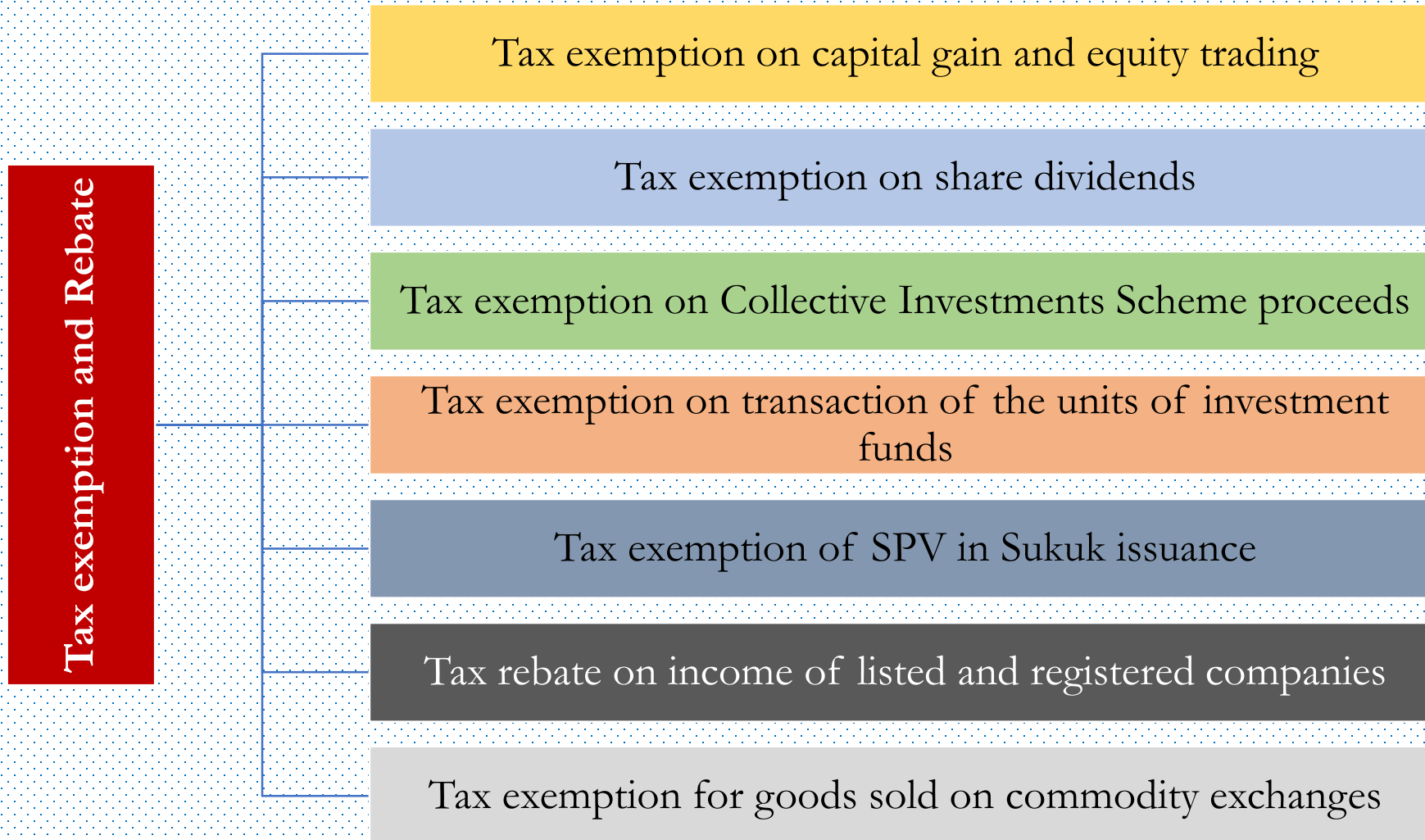
- Issuers: Codal, Codal360
- All listed companies are obliged to post all significant information on [www.codal.ir](http://www.codal.ir)
- Monthly, quarterly, semi-annual and annual financial statements are accessible on [www.codal.ir](http://www.codal.ir)
- Trades: [tsetmc.com](http://tsetmc.com)

## Anti Money Laundering Regulations

- AML Act, 2008
- Countering-Financing of Terrorism Act, 2016
- CFT Executive By-Law, 2017
- The Regulations on Customer Identification and Verification (CDD) In the Capital Market
- KYC (SEJAM): Fast and easy KYC (<https://dara.csdiran.com/Sejam>)
- AML Monthly Bulletin

# **Tax Incentives, International Relationships and Foreign Investors**

# Tax Incentives



# International Cooperation

- **SEO Membership:**



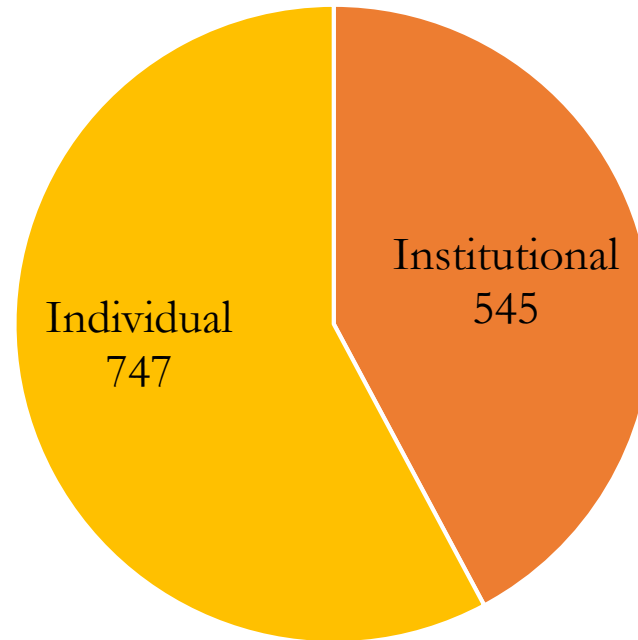
- **Capital Market Bodies Membership:**



- **MOU: 19 memoranda of understanding**

# Foreign Investment

No of trading Accounts

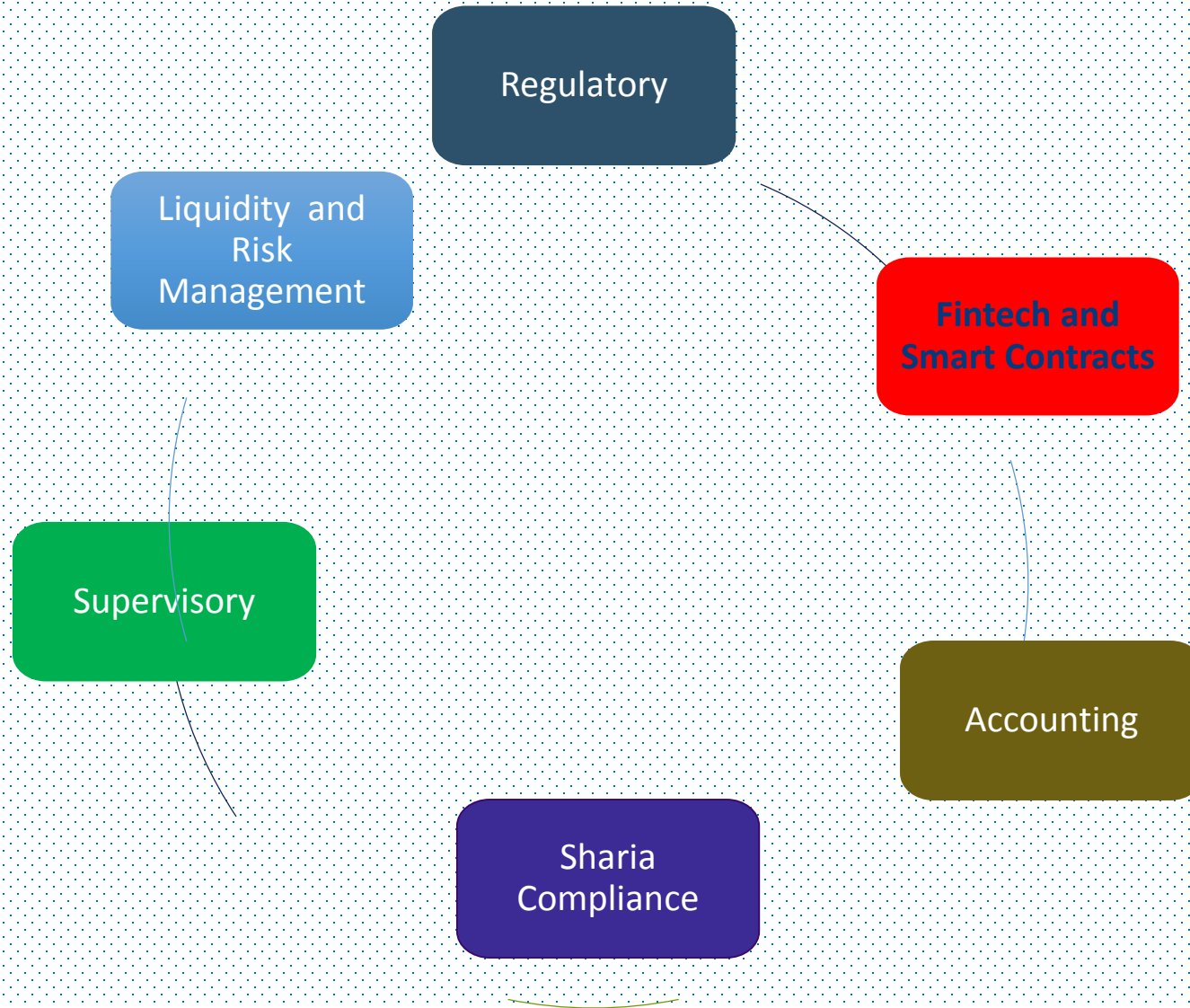




# **Future Plans**

- ❖ **Shifting from being bank-oriented towards more reliance on capital market.**
- ❖ **Giving official status to currency exchange houses and limiting central bank interventions in open market operations.**
- ❖ **Develop the domestic bond market under the Sixth Five-Year Development Plan (2017-22).**
- ❖ **New Financial Instruments:**
  - **basket of future contracts and performance bonds.**

# Islamic Finance Challenges



# Islamic Finance Challenges

- Sharia Compliance requirements

**True Linkage between  
Real and Financial  
Sectors of Economy**

**Proper Registration  
and Safekeeping of  
Underlying Assets**

**Guaranteeing Physical  
Delivery**

# Islamic Finance Challenges

## Sharia Compliance requirements in Fintech and Smart Contracts

- It is subject to the Sharia requirements that should be met in a contract:
  - **In the offer and acceptance (ijab and qabul)**
  - **Underlying assets**
  - **Contracting parties**
- Subject to avoidance of the Sharia prohibitions such as riba, gharar.
- **Sharia scholars without FinTech knowledge tend to allow or disallow any latest technology due some reasons.**

# Islamic Finance Challenges

## Accounting

- ❑ Challenges related to accounting objectives, concepts, identification, measurement, presentation & disclosure.
- ❑ Challenges that are related to the accounting procedures and records.

**Q&A**

**Thanks for your Attention**