



الوكالة الإسلامية الدولية للتصنيف  
Islamic International Rating Agency

## **Islamic Capital Markets Seminar**

**24 January 2008, Maldives**

**Organized by IFSB & CMDA, Maldives**

**“Regulation of Islamic Capital Markets – Role of Ratings”**

By:

**Jamal Abbas Zaidi**

Chief Executive Officer

Islamic International Rating Agency



# Common objectives of Regulators;

- **Containment of risks**
- **Sufficiency of disclosure**
- **Protection of less sophisticated investors**
- **Prevention of possibility of fraud**



# Role of Rating Agencies

- **Reduce asymmetry in information**
- **Give independent and unbiased opinion in simple code**
- **Maintain high standards of professionalism to earn confidence among investors**



# Stage of development of Islamic Capital Markets

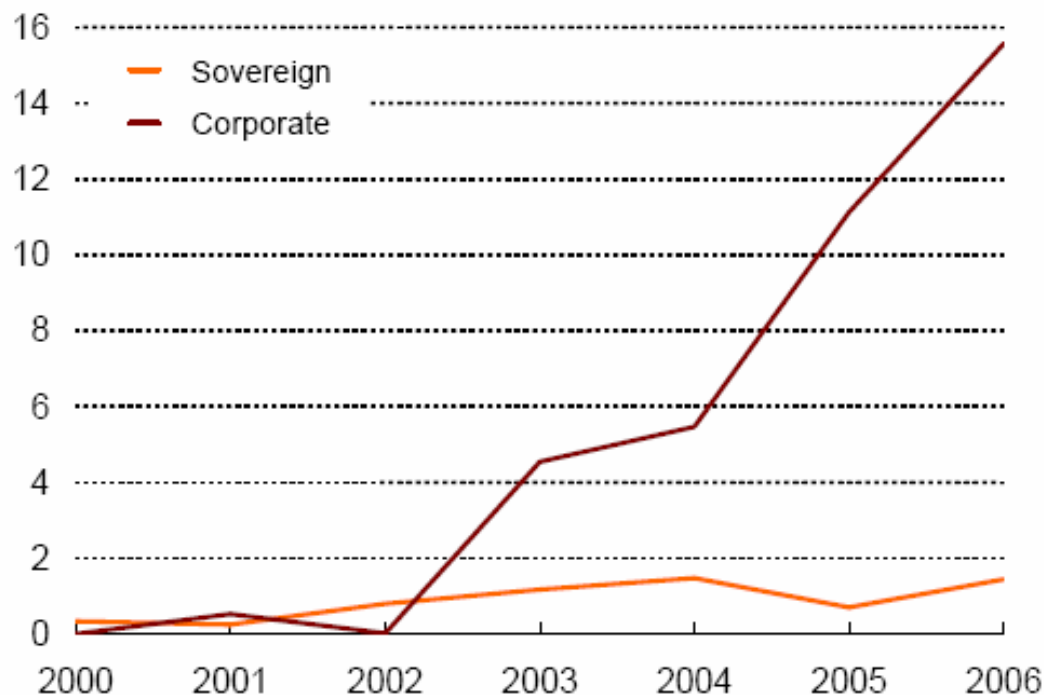
- **Important players are GCC countries, Malaysia, Indonesia, Turkey & Pakistan**
- **Equities market developed to a respectable size**
- **Debt market relatively new and developing**
- **Sukuk market showing rapid growth**
- **IFSB, AAOIFI, IIRA contributing to development of capital markets**



# Growth of Sukuk market

## Islamic bonds: annual issuance

(in billions of U.S. dollars)



Source: IMF staff estimates.



# Efficient Capital Market,

- **provides disintermediation**
- **reduces reliance on banking sector for funding needs**
- **reduces costs of funds**
- **aligns funding cost to risk profile of borrower**
- **provides diverse avenues for liquidity management**

**Credit Ratings accelerate development of capital market**



# Emergence of rating agencies in Islamic countries

- **Malaysia (1990)** – **2 rating agencies**
- **Indonesia (1993)** – **3 rating agencies**
- **Pakistan (1994)** – **2 rating agencies**
- **Bangladesh (1997)** – **3 rating agencies**
- **Bahrain (2005)** – **1 rating agency**



# Some regulatory requirements in South & South East Asian Countries

- **Compulsory rating of banks**
- **Compulsory rating of Sukuk and certain other debt instruments**
- **Minimum rating benchmarks for companies issuing certificates of deposits and certificates of Mudharabas**



# Ratings,

- **keep issuers/ issues under surveillance**
- **reflect current financial position of issuers/ issues through upgrades or downgrades**
- **reduce market volatility**



# Shari'a Compliance

- **Central pillar of Islamic financial institutions**
- **Is a continuous process**
- **Requires independent monitoring**



# Thank You

Please visit our website [www.iirating.com](http://www.iirating.com) for information on rating methodologies and rating scales

## Contact Details:

**Jamal Abbas Zaidi**  
**Chief Executive Officer**  
**Islamic International Rating Agency**

**Telephone:** +973 17211606  
**Fax:** +973 17 211605  
**Email:** [iira@iirating.com](mailto:iira@iirating.com)  
**Webpage:** [www.iirating.com](http://www.iirating.com)  
**Address:** P.O. Box 20582  
Manama  
Kingdom of Bahrain

