

## Islamic Capital Market (ICM) in Bangladesh: Products, Regulations and Advancement

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**Abstract:** Muslim countries including Bangladesh are developing the Islamic Capital Markets (ICM) parallel to the existing conventional capital markets. Islamic Banking has gained wider acceptance by the people of Bangladesh after playing crucial roles in the area of deposits and financing sectors in the economy of Bangladesh. This research investigates how Islamic Capital Market is creating varieties of financial products as well as to ensure a well-functioning and healthy growth of the economy of the country. The results should assist Bangladesh Bank (BB) and Securities and Exchange Commission (SEC) to enact more relevant regulations for sustaining the ICM in this arena. The present research is mainly qualitative. It is based on a comprehensive review of articles based on ICM; gathering and analysis of secondary data. For the further growth of the market, the paper found that, there is a lack of a secure, safe and established regulatory framework. Bangladesh can be secured for becoming the next big hub for ICM if the mentioned proposals are to be followed properly.

**Keywords:** Islamic Capital Market, Bangladesh, Products, Regulations

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### I. Introduction

Capital markets can be defined as financial markets for making a contract of buying and selling of long-term debt or equity-backed securities. These markets favour basically companies or governments building long-term investments. In contrast, Islamic Capital Market (ICM) indicates to the market where functions are carried out in ways without making conflict with the basic philosophy of Islam. In future, a vibrant Islamic Capital Market will exist alongside its conventional counterpart. So, when conventional counterpart recognizes its value and makes a room for participating in its success then the ICM will surely expand.

Over the past decade, Islamic finance has established itself as an increasingly monumental ingredient of the global financial system with an impressive growth record. As a part of the Islamic financial system, ICM plays a significant role in offering different modes of financing and investment options to individuals as well as corporations. It helps investors to find Shariah compliant investment opportunities and also works parallel to the conventional market.

Product innovation and diversification of financial instruments in the ICM must add irrevocable value; also can enhance the risk-return choices for the investors. This is a necessary tool to protect the investors and to make strengthen the overall regulatory environment. So, several efforts need to be focused more and more in widening the national appeal and general acceptability of ICM in Bangladesh. ([www.ifsb.org](http://www.ifsb.org))

Not much literature is being done on developing the Islamic capital market in Bangladesh. The important role of Islamic Capital Market in economic development has not really been exploited especially in developing countries. The overall outcome of this research will add to the present and growing parts of literature on the Islamic Capital Market. It will also contribute to building up the field of Islamic Capital Market studies, specifically in Bangladesh and developing countries at large.

The subject of advancement of Islamic Capital market contain a variety of aspects such as: product variety and product growth; regulatory system and possible approached for further enhancement; identification and enhancement of support institutions; preferences and nature of market players; cost-benefit system of market integration and expansion; market performance evaluation; designing of corporate governance and incentive system; emergence of the role and nature of Islamic capital markets and many other dimensions. (Ali, 2005).

## 1.2 Objectives

The objectives of the study are as follows:

- i. To provide an overall idea about ICM.
- ii. To draw attention to the current position of ICM in Bangladesh.
- iii. To identify the problems those impede the operation of ICM.
- iv. To provide suggestions and make recommendations to take towards developing ICM in Bangladesh.

## 1.3 Methodology

**1.3.1 Collection of data:** Maximum data has been gathered from secondary sources. So the researcher's work is based on published information and data available in any form such as newspapers, journals, books, magazines, etc. devoted to ICM sector. Secondary data has been taken out from Bangladesh Bank website, Securities and Exchange Commission (SEC), Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). The present research is mainly qualitative in nature. It is based on a comprehensive review of articles based on ICM; gathering and analysis of secondary data.

**1.3.2 Analysis of data:** The secondary data have critically reviewed and discussed by using statistical techniques like weighted average and by adding tables and figures.

## II. 1 Islamic Capital Market

The Islamic Capital Market indicates to the specific market where ambiguity (*gharar*), gambling (*maisir*) and interest (*riba*) are free from any kind of transactions. (Securities Commission, 2009b) Doubtful and interest based transactions, and trading of shares in companies that deal in activities that are unlawful under Islamic law must be absent in the Islamic Capital Market. (Alhabshi, 1994). Because of receiving increased investors' attention and providing innovative financial products, the Islamic Capital Market, besides Islamic banking and *takaful*, is one of the momentous and growing segments in Islamic Finance. (Ali, 2008).

## 2.2 Types of ICM Products

ICM products that are currently available in the market include the following:

### 2.2.1 Sharī'ah-compliant Stocks/Equity Securities

Sharī'ah-compliant equity securities are typically ordinary shares of listed companies which have been categorized as Sharī'ah compliant for investment, in the sense of the companies' compliance with applicable to Sharī'ah screening criteria.

Equities are risk-sharing in nature, where investors participate in the potential for capital appreciation and dividends as well as the risk of loss. In the sense of partnership by sharing both losses and return, conventional equity is almost similar to the Islamic equity. So, the issuing company makes a decision to disburse part of it and if profits are made, the equity holder can entertain dividends. (ISRA, 2011). Moreover, when the share is sold at the rate of premium price, the capital gain could be realized easily. It should be pointed out that if some assets are in an illiquid position, the securities of an organization can only be negotiated. However, without negotiable they can be disposed of at the rate of value, if the large percentage of assets is liquid.

Islamic equity agreements are basically similar to the Mudarabah and Musharakah agreements which must concur in accordance with the principles and philosophy of Islamic agreements. Principles of Islamic agreement indicate that the business should be an admissible one or halal. (Wilson, 1997).

The fact remains that, Sharī'ah-based equity relates that kind of equity whose base line of business transaction is completely permissible. However, an exclusive screening process should be conducted if the companies have mixed profit from both non-Sharī'ah and Sharī'ah compliant operations.

### 2.2.2 Islamic Unit Trust/Mutual Funds

This investment scheme offers investors the scope to invest in a multidimensional portfolio of Sharī'ah-compliant equity securities, Sukūk, instruments related to Islamic money market and other Sharī'ah-compliant asset classes. The majority of Islamic unit trust funds invest mainly in equity securities.

### 2.2.3 Islamic Real Estate Investment Trusts (REITs)

The main component of Islamic REIT is that the principles of Sharī'ah must look after the fund management and income of the Islamic REIT. In accordance with the guidelines on Islamic REITs, "In general, an Islamic REIT is a collective investment scheme in real estate, in which the tenant(s) operates permissible activities according to the Sharī'ah". (MIFC, 2013)

Leasing and acquisition of real estate (tenancies and sub-tenancies), should be operated by Sharī'ah-compliant. Conventional banking services, casino operations, gambling and the sale of non-Halal food items and liquor are the examples of impermissible activities or operations.

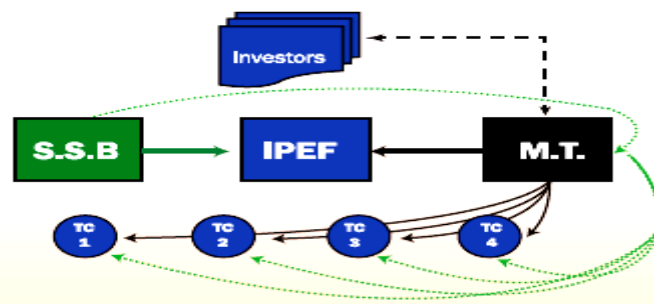
#### 2.2.4 Islamic Exchange-traded Funds (ETFs)

An ETF is a collective investment scheme that tracks the performance of a benchmark index usually by investing in the constituent securities or instruments of the index. Some ETFs achieve this objective through swap arrangements or synthetic replication.

For an Islamic ETF, the benchmark index consists of Sharī'ah-compliant constituents and the fund, therefore, invests in these index constituents and, where permissible, other Sharī'ah-compliant instruments.

#### 2.2.5 Islamic Private Equity Funds

This type of fund focuses on investments in privately held Sharī'ah-compliant companies. Where the investment size is significant, investors may be able to seek board representation in the investee company. A private equity investment provides investors with the potential for relatively high returns as they also would assume higher risks due to the higher probability of failure. One exit mechanism for investors when the company performs well is a public listing. A Basic IPEF fund structure can be as follows.



**Figure 1:** Basic IPEF fund structure

Source: Wouters (2008)

According to the figure, first of all, Sharī'ah statement of policy must be established by Sharī'ah Adviser (SA) or Sharī'ah Supervisory Board (SSB). Then investors can finance the IPEF. On behalf of the IPEF, Management Team (MT) explores and acquires equity in the Target Companies (TC). SA can monitor the follow-up of statement of policy. MT and Sharī'ah Compliance Officer (SCO) monitor the TC for the IPEF. After discovering Sharī'ah irregularities by the TC, it will be reported by the SCO to the SA. On the decision of the IPEF, the MT executes the exit out of the TC through IPO/sale. Finally, the profits/losses will be distributed to the investors.

#### 2.2.6 Sukūk

Sukūk is an alternative to bonds as long-term debt instruments. They are structured based on a Sharī'ah-compliant contract of exchange of assets or services, or a contract of participation or partnership. This type of contracts can be happened on medium of selling and buying of assets deepened on, participation in joint-venture businesses, deferred payment or leasing of particular assets.

Hence, simply exchange of interest based paper for money is not the Sukūk, rather, an interchange of Sharī'ah-compliant assets for some financial considerations that grant shareholders to derive profits from the business transactions, such as Mushārahah, Ijārah, Murābahah and Wakālah.

Diversity of structures and Islamic financial contracts used for the issuance of Sukūk provides flexibility to issuers in managing their distinct financing requirements – for example, for expansion of business, working capital, refinancing or project financing. Sukūk issuers may include governments, quasi-governments, public listed companies, private corporations and multilateral organisations.

However, Special Purpose Vehicle (SPV) is created by the demand of Sukūk. In favour of Sukūk holders, The SPV remains as trust. Corporations-fund users can ask the SPV for the assets/investments and after the feasibility report it will be granted for business purpose.

### 2.3 Financial Regulatory Bodies in Bangladesh

The central bank of Bangladesh named “Bangladesh Bank” has the ultimate authority to regulate the Islamic banking industry. The Securities and Exchange Commission (SEC) has a full regulatory mandate to

guide the capital market activities, while the insurance and Takāful sectors controlled by Insurance Development & Regulatory Authority Bangladesh.

**Table 1: Financial Regulatory Bodies in Bangladesh**

Bangladesh Bank (BB)	Securities and Exchange Commission (SEC)	Insurance Development & Regulatory Authority (IDRA)
• Regulates Islamic Banking sector	• Regulates Islamic Capital Market sector	• Regulates Takāful sector

Source: (<https://www.bb.org.bd/fnansys/regulator.php>)

### 3.1 Current position of ICM in Bangladesh

Although not as vibrant as its neighbour Pakistan or regional peers such as Malaysia or Indonesia, Bangladesh has made some progress in its Islamic capital markets.

#### 3.1.1 Islamic Bond

A bond named Mudaraba Perpetual Bond (MPB) has been issued by Islami Bank Bangladesh Limited of Tk. 3,000 million in 25th November 2007 which is the first of its kind to serve multiple purposes like creating a vibrant bond market in Bangladesh, creating new avenues of investment for the prospective investors etc.

From the viewpoint of the Islami Bank, to raise fund to maintain the capital adequacy requirement ratio of the Bank is the main purpose of that bond. (IBBL) Financial performance of this bond is summarized in the table.

**Table 2: Annual Profit Rates of Mudaraba Perpetual Bond**

Year	Profit Rate
2015	10.34%
2014	11.18%
2013	12.80%
2012	13.58%
2011	13.20%
2010	12.35%
2009	12.35%
2008	13.80%
2007	12.64%

Source: Stock Bangladesh ([www.stockbangladesh.org/symbols/news/IBBLPBOND](http://www.stockbangladesh.org/symbols/news/IBBLPBOND))

Salient Features of Mudaraba Perpetual Bond of Islami Bank Bangladesh Ltd. (IBBL):

1. It has no pre-determined interest rates and redemption facility.
2. MPB will get an additional rate of profit equivalent to 10% of the rate of dividend (portion of dividend will not be assigned to the MPB holders) and also share income derived from investment activities.
3. MPB will be issued to meet the capital adequacy ratio of the Bank.
4. Term: Perpetual (no maturity period).
5. Amount of Tk. 5,000 or multiple of Tk. 5,000 is the minimum subscription.
6. In case of liquidation of the bank, MPB will get priority over the investors in respect of getting profit and also refund of principal.
7. In respect of the payment of both refund of principal and profit, the Bondholders will stand as subordinated to the Depositors.
8. Depending on the market demand, MPB will remain freely transferable and will be listed with both Bourses of the country.
9. In order to secure the interest of the Bondholders, IBBL has already agreed, on the present and future assets of the bank, to create the floating charge to the extent of Tk. 3,000 million in favour of the trustee.
10. The corporate guarantee of the IBBL will secure the bond..
11. MPB will be treated as a Tier-2 Capital that will save from dilution effect & enhance dividend paying capacity of the bank. (DSE)

#### 3.1.2 Islamic Fund

To facilitate the Islamic capital market in the country and to draw attention the shareholders who want to invest in Sharī'ah-based financial products, the government-owned Investment Company 'Investment Corporation of Bangladesh (ICB) has introduced 'ICB AMCL Islamic Mutual Fund' for Taka 100 million in 2005 with the approval of the Securities and Exchange Commission. A subsidiary of ICB, ICB Capital Management Limited is the sponsor and ICB is the Trustee & Custodian of the Fund. ICB AMCL is acting as the Asset Manager of the Fund. (ICB AMCL).

With a number of fully-fledged Islamic fund managers in the market (including four mutual fund companies), a growing number of conventional players is also moving into the Sharī'ah space including Asian

Tiger Capital Partners Investment (ATC INV) which has signed the trust deed of ‘ATC Shari’ah unit Fund’ looking to launch a BDT100 million (US\$1.25 million) Shari’ah fund in 2016. (Tan, 2016)

**Table 3: Highlights of ICB AMCL Islamic Unit Fund**

Fund At-a-Glance		
01.	Name	ICB AMCL Islamic Unit Fund
02.	Nature	Mutual fund with open-end growth
03.	Life and Size of the Fund	Permanent Life without limited size
04.	Sponsor	ICB Capital Management Limited
05.	Trustee	Investment Corporation of Bangladesh
06.	Custodian	Bangladesh Investment Corporation
07.	Asset Manager	ICB Asset Management Company Limited
08.	Initial Size of the Fund	Tk. 20,00,00,000.00 (twenty crore) divided into 2,00,00,000 (two crore) units at par value of Tk. 10.00 (ten) each
09.	Face Value	Per unit tk. 10.00 (ten)
10.	Min Application Amount	100 (hundred) unit
11.	Objective	The objective of the Fund is to provide attractive dividend to the unit holders by investing the fund only in Shari’ah compliant instruments of capital market and money market.
12.	Prospective Investors	Individuals, institutions, Non-resident Bangladeshi (NRB), mutual funds and collective investment schemes are eligible to invest in this Fund.
13.	Shari’ah Advisory Board	According to Shari’ah law, the Fund shall be managed. To ensure the compliance of Shari’ah Guidance, a Shari’ah Advisory Board shall be formed. Hence the Board shall formulate “Shari’ah Supervisory Guidance” for fund management and present it to the commission.
14.	Sale / Surrender / Transfer of Units	Its designation would be Selling Agent’s Branch Offices and over the Counter (OTC) of the Asset Manager.
15.	Transferability	By way of inheritance/gift and by specific operation of the law, the unit certificates of the fund shall be freely transferable
16.	Encashment	During the business hour, the unit holders can give up their unit certificates. On behalf of the fund, The Asset Management Company shall be responsible to re-purchase the units.
17.	Tax Benefit	Up to certain level, income shall be tax-free, which is granted as per Finance Act. According to section 44(2) of the Income Tax Ordinance 1984, investment in the fund would qualify for investment tax credit.
18.	Report & Accounts	When Annual Report will be published, every unit holder is entitled to receive it along with the yearly and half-yearly statements of accounts.

Source: (<http://www.icbamcl.com.bd>)

### 3.1.3 Shari’ah Index

There are two Islamic indices in Bangladesh. Bangladesh welcomed its first Islamic index DSEX Shari’ah index (DSES) in January 2014 by the Dhaka Stock Exchange. Port city bourse Chittagong Stock Exchange followed suit in October by launching the CSE All Shari’ah Index.

#### 3.1.3.1 CSE All Shari’ah Index

Developed by India Index Services and Products, covering 17 sectors of the economy, CSE All Shari’ah stocks represent near about half of the total market capitalization at approximately 48.6% and about 41.35% of the float-adjusted market capitalization in the CSE listed companies. (Tan, 2016) The CSE All Shari’ah Index comprises of all Shari’ah compliant companies listed on Chittagong Stock Exchange (CSE). The index does not have accurate number of companies and is reviewed on an annual basis. 77 Companies among 252 listed companies were found Shari’ah compliant in the new List of CSE Shari’ah Index (CSI) effective from September 21, 2015. Constituents that become non-Shari’ah compliant are excluded from the index. The index shall have the variable number of constituents. The CSE All Shari’ah Index can be used as benchmarking fund portfolios, launching of index funds, ETF’s and structured products and so many variety of purposes.

**Table 4: Top 10 constituents by weight of CSE All Shari’ah Index**

Company Name	Weight (%)
Square Pharmaceuticals Ltd.	16.07
Grameenphone Ltd.	13.60
Lafarge Surma Cement Ltd.	12.60
Beximco Ltd.	6.23
Islami Bank Bangladesh Ltd.	4.71
Olympic Industries Ltd.	4.34
Heidelberg Cement Bangladesh Ltd.	3.41
Summit Power Ltd.	3.31
Al-Arafah Islami Bank Ltd.	2.39
Export-Import Bank Of Bd. Ltd	2.06

Source: ([www.cse.com.bd/cse\\_shariah.php](http://www.cse.com.bd/cse_shariah.php))

**Table 5: Sector Representing in CSE All Sharī`ah Index**

Sr.No.	Sector	Weight (%)
1	Pharma & Chemical	19.30
2	Cement	17.21
3	Telecommunication	13.60
4	Bank	12.59
5	Energy	11.13
6	Miscellaneous	6.24
7	Foods & Allied	5.63
8	Textile & Clothing	4.91
9	Eng. & Electrical	3.48
10	Leather & Footwear	1.68
11	Services & Property	1.35
12	ICT	1.25
13	Life Insurance	0.57
14	Ceramic	0.53
15	Papers & Printing	0.21
16	Leasing & Finance	0.18
17	General Insurance	0.13

Source: (www.cse.com.bd/cse\_shariah.php)

### 3.1.3.1.1 Eligibility Criteria for Selection of Constituent Stocks

- I. Other than Mutual Funds and Corporate bonds, index comprises of Sharī`ah compliant stocks that form part of all companies listed on CSE.
- II. Sharī`ah compliance screening is done on an annual basis. At the ending of June of each year, the index is rechecked on an annual basis with data.
- III. If any index constituent becomes non- Sharī`ah compliant or is delisted from the CSE, the same will undergo compulsory exclusion from the index.

### 3.1.3.1.2 Index Governance

The CSE All Sharī`ah index is enhanced by India Index Services and Products Ltd. (IISL), a subsidiary of NSE Strategic Investment Corporation Limited and a group company of the National Stock Exchange of India Limited. The Sharī`ah screening partner of IISL makes an annual Sharī`ah compliance screening. So, annual changes to index constituents are happened in accordance with the index.

### 3.1.3.2 DSEX Sharī`ah Index (DSES)

The DSEX Sharī`ah Index (DSES) serves as a Sharī`ah-compliant broad market benchmark. The objective of this index is measuring the performance of the Bangladesh equity market. The index is constituted as a subset of the DSE Broad Index (DSEX) and comprises all stocks included in the parent index that pass rules-based screens for Sharī`ah compliance.

The DESEX Sharī`ah Index (DSES) utilizes the Sharī`ah screening methodology and processes employed by the S&P Sharī`ah family of Indices. In the Sharī`ah index, gambling and trading of gold and silver, alcohol, tobacco, cloning, news or sports channel, advertising and media, newspaper based companies cannot be placed.

Even financial institutions except for Islamic insurance companies, Islamic financial institutions and Islamic banks will not be eligible. Also it cannot be placed in the DSEX Sharī`ah Index, if a company's revenue exceeds more than five per cent which comes from non-compliant activities.

Suffice it to say that, every company having a Sharī`ah supervisory board and doing transactions (business and financial) by Sharī`ah principle will be eligible.

## 3.2 The Need for the Advancement of Islamic Capital Market in Bangladesh

The Islamic renaissance all over the world which led to the establishment of the Islamic financial system in many Muslim and non-Muslim countries has re-awakened the interest of many self-righteous contemporary Muslims in Bangladesh which can easily be assumed by the success of Islamic Banking of this country.

Islamic banking was first introduced in Bangladesh in 1983 as the first step towards having an Islamic Financial System in the country. The Islamic banking community in Bangladesh is comprised of eight fully-fledged Islamic banks (out of 39 private commercial banks), 19 Islamic banking branches from nine conventional commercial banks (up one from December 2014), and 25 Sharī`ah banking windows of seven conventional players as at the end of the first half of 2015.

Many countries (such as Malaysia, Iran, Kuwait, Bahrain, Sudan, etc.) in the world that welcomed Islamic finance introduced various instruments that spurred the formation of Islamic capital market.

In recent days, there is an immense layout of Islamic capital market products and services to meet the needs of those who quest for invest by following the Sharī'ah principles. These involve Islamic bonds, Sharī'ah-compliant stocks, Islamic funds and Islamic risk management products.

Although Bangladesh has witnessed the growth in Islamic banking and takaful institutions, the Islamic capital market segment, which is one of the most necessary and growing sectors, has not received much attention yet. So, the development of the Islamic capital market in Bangladesh is now a pressing need. Islamic capital market has a great potential for growth in Bangladesh.

The establishment of Islamic Financial System in Bangladesh can be justified from various aspects as legal, economic and societal needs points of view.

**First**, from the legal point of view, the Bangladeshi constitutions provides for equal rights to all citizens. Thus, religious freedom is guaranteed in the constitutions.

Article 41 (1) of the Constitution of Bangladesh reads "Subject to law, public order and morality –

- a) Every citizen has the right to profess, practice or propagate any religion;
- b) Every religious community or denomination has the right to establish, maintain and manage its religious institutions."

**Second**, economically, the major justification for the development of Islamic capital market deals with Sharī'ah compliant investments in Bangladesh is to be able to mitigate harmful effect of interest on the Bangladeshi economy. The current interest based system in Bangladesh has a negative impact on the level of investment due to the very volatile nature of interest rate in the economy, leading to economic stagnation which slows down the economic growth. This is a clear indication that there is an urgent need for a better alternative to avert the deepening financial difficulties in Bangladesh.

**Third**, the need to provide an alternative to the current conventional capital market failure in Bangladesh is also a justification developing Islamic capital market in the country. The Bangladesh Stock Exchange has been facing domestic crisis since 2010 when the stock price continues to decrease and denying investors' access to liquidity. If the reality of mutual dependence of the global economy is implemented, the economy of Bangladesh is not immune to the adverse impact of uncertainty and unrest in the international currency and commodity markets.

Since the government has often stressed its desire to revitalize the Bangladesh capital markets and aligns it to the standards of the international portfolio investors, the government could consider the development of Islamic capital market alongside the conventional capital market as this will create a vibrant and increasing the width and depth of the Bangladesh capital market that can withstand the challenges.

Specifically, the improvement of Islamic capital market in line with the tenets of the Sharī'ah would enhance competition in the financial market offering choices to the potential investors in the country. This would help the Bangladesh economy by creating both domestic and foreign investment opportunities.

The success of any financial system in mobilizing surplus funds for fostering economic developments depends on its ability to satisfy and requirements of the economic agents. The establishment of the Islamic Capital Market in the country would motivate devoted Muslims to contribute and invest in Sharī'ah compliant instruments that they have been longing for over the years.

Similarly, this initiative would encourage a pull of substantial amount of funds that can be channelled into appropriate projects to meet the financing requirements in the country and also develop the market.

#### **4.1 Problems related to ICM of Bangladesh**

Against the background of a very small ICM in Bangladesh, the development of an Islamic capital market is a challenging task. Before anything else, it has to be clarified what are the reasons for the underdevelopment of the Islamic capital market in particular.

- The Islamic capital market of Bangladesh is of a very small size due to the lack of a wider spread of Islamic capital market instruments compared with the conventional market which causes limited availability of liquidity.
- Problems with tax issue; that is, the tax system favours bank financing over capital market financing.
- The insufficient arrangement of specific incentives (for both the issuers and investors of Islamic Capital Market instruments) targeted at selected ICM products and services to accelerate their development.
- Presently there are very few numbers of experts who have a depth knowledge in both the capital market and Sharī'ah market. This is due to lack of training and professional courses in the perspective of Islamic capital market.
- There are lots of strong market participants who are not following Sharī'ah-compliant and so that, are not included in the part of ICM or Sharī'ah index.
- Lack of a secure and established regulatory framework for the further growth of the market.
- Lack of awareness of investors about the Islamic capital market products.

- Though Bangladesh government has formulated a guideline for Islamic bond under the public debt act 1994, it's to be noted that there is no Sharī'ah board or council of government or the Bangladesh bank to operate Islamic Bond in accordance with Islamic Laws and guidelines.
- Currently unlimited database is not available for the Islamic capital markets and arduous to get statistical information about the size and profile of the goods and services because most of the databases are conducted by the private sector for their customers and business purposes. That's why researchers, market players and regulators have faced lot of difficulties to create relevant information for monitoring and evaluating Islamic capital markets.
- There is lack of legal framework.

#### **4.2 Proposals for ICM Advancement**

In establishing the ICM ecosystem, it is critical to ensure that the institutional arrangements for the development and implementation of sound supporting infrastructure and frameworks are in place. Also, an environment conducive to innovation and development of ICM products and the offering of core and ancillary services need to be created.

The following critical factors needed for the enhancement of a strong ICM:

##### **4.2.1 Products and Services**

A most important pre-requisite for a vibrant ICM is the availability of an extensive range of products and services, supported by the presence of a diverse group of intermediaries that can attract both institutional and retail investors. Having breadth and depth of products in the marketplace provides choices and builds liquidity, while diversity of market participants encourages a more competitive environment that promotes greater efficiency and innovation.

##### **4.2.2 Tax**

Tax neutrality provisions are imperative to ensure that ICM instruments and structures do not attract higher tax liabilities relative to their conventional counterparts. Such provisions are instrumental in spurring the growth of the ICM (the Sukūk market, in particular) as it supports the cost viability of ICM/ Sukūk transactions.

##### **4.2.3 Incentives**

Another enabler for the ICM is a set of specific incentives targeted at selected ICM products and services to accelerate their development. However, these incentives should be temporary, as the selected products and services should be commercially viable on their merit in the longer term.

##### **4.2.4 Talent Development**

Market professionals should have enough theoretical and technical knowledge on the Islamic capital market to provide the high quality, advisory and intermediation services. Relevant professional courses and better training on the Islamic capital market should be arranged more & more.

##### **4.2.5 Sharī'ah Compliant Industry**

Large companies which are strong market participants, playing major roles in conventional capital market part should also come forward to ICM realizing the benefits of it. These benefits involve establishing equitable bargaining power, a level playing field via reasonable profit-taking; maintaining stability by promoting sustainable business and investment activities, by removing business operations, the welfare of the societies; uncertainty reduction and in leverage levels in the business hub; linking capital markets to economic activities and so on.

##### **4.2.6 Regulatory Framework**

In promoting orderly growth of the ICM, a black and white regulatory framework is needed. Adequate disclosure requirements and robust market supervision should be ensured. The framework should also give freedom to the investors in ICM products that they can enjoy the same degree of certainty, clarity and regulatory protection.

##### **4.2.7 Investor Education**

The level of awareness and better understanding of investors with regards to Islamic capital market products should take into consideration. Investor education is important for investor activism as well as to increase investor protection and surveillance of Islamic capital market activities.



#### **4.2.8 Shari'ah Governance Framework**

A key differentiator between Islamic and conventional capital markets is the Shari'ah aspect, where Shari'ah governance is a critical inherent component of the ICM. Shari'ah governance plays an exclusive role in ensuring that ICM products and transactions, as well as the operations of institutions offering Islamic financial services, comply with the prescribed rules and principles of the Shari'ah, thereby providing a high degree of assurance to market participants.

In practice, the Shari'ah governance framework varies from one jurisdiction to another – in certain jurisdictions, the ultimate responsibility for determining Shari'ah compliance sits at national-level Shari'ah councils or boards, while in others the role is undertaken by Shari'ah committees within individual companies.

#### **4.2.9 Knowledge Sharing**

The way of data collection related to the Islamic capital market should be improved. A comprehensive database should be created which will be visible to the common people. This database will also be valuable in providing prompt information to study and benchmarking activities concerning the Islamic capital market.

#### **4.2.10 Legal Framework**

A supportive framework that minimises legal impediments to ICM transactions while safeguarding investor rights is important. In addition, the legal framework should contribute towards achieving greater certainty and enforceability in respect of contracts and documentation.

### **III. Conclusion**

As an important feature of Islamic Financial System (IFS), in the recent years Islamic Capital Market (ICM) has observed amazing growth. Sukūk and Islamic equity together made up the products being traded in the ICM. ICM plays a critical role in the fulfilment of its intermediation role of transmitting funds from surplus to deficit unit of the economy. So, in ensuring efficient demonstration and allotment of funds and their optimal utilization, ICM is essential. After the recent failure of the conventional financial system, the tremendous growth of ICM is surely making as the supporting components to the global financial system.

The ICM is still going through the development stage in Bangladesh. Adopting practices and initiatives that have proven effective in other jurisdictions (subject to country-specific peculiarities), as well as observing lessons learned from the experiences of others, Bangladesh can facilitate and accelerate the development of its own ICM.

The growth potential for Bangladesh's ICM is enormous. If the Bangladesh government, the central bank and financial regulators keep supporting, Bangladesh can be secured for becoming the next hub for ICM in Asia and on a global scale someday.

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