

ISLAMIC FINANCE

WIBC: Asia 2015

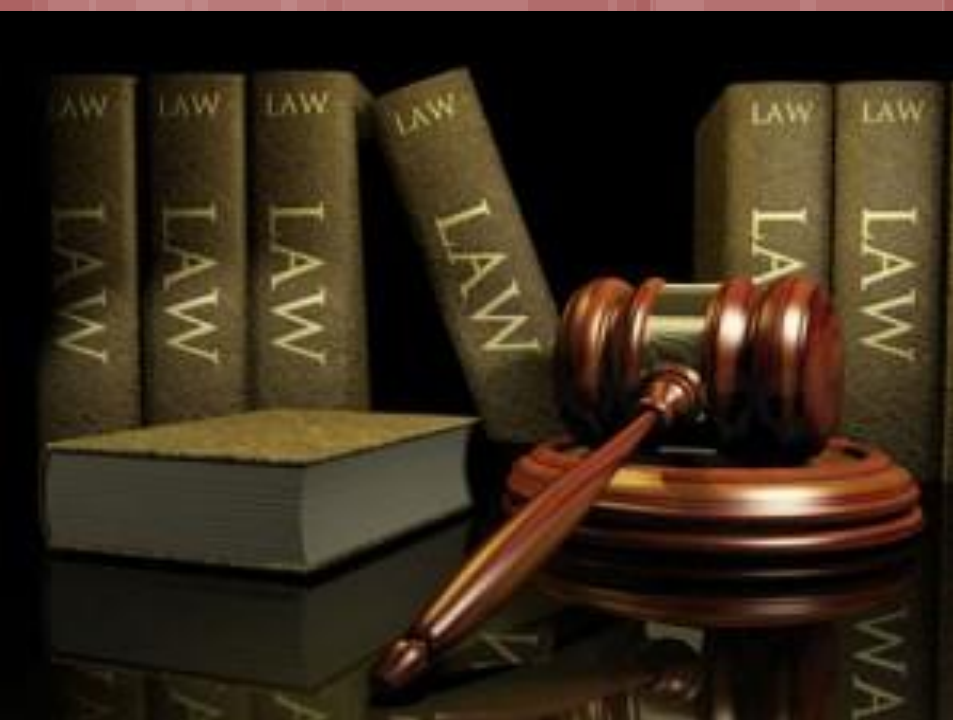
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*“In the race of excellence, there is no
finish line”*

*H.H. Sheikh Mohammed Bin Rashid
Al Maktoum*

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- Currently, the interest in Islamic Finance is spreading through Europe as well:
 - It is considered an efficient and alternative financial instrument.
 - It is an effective tool to attract new investors and business from GCC Countries and Southeast Asia (In the last few years the number of economic/business relationships, transactions between European Countries and GCC Countries has deeply increased).



Sukuk Issuance – Overview Europe

- One of the most representative Islamic Finance instrument is the *Sukuk*:
 - Last June, the UK Government issued its first Sovereign Sukuk (becoming the first Country outside the Islamic world to issue Sovereign Sukuk). Two Banks from GCC and one Bank from Malaysia acted, together with two UK Banks, as Joint Lead Managers for the issuance.
 - Last October, the Luxembourg Government did the same, issuing its first Sovereign Sukuk and becoming the first Country in the Euro-zone to issue a Sovereign Sukuk (Joint Lead Managers for the issuance: Three European Banks, acting together with a GCC Bank).



- The Irish Government has adopted and implemented some specific measures (changes in its financial and tax legislation) to make the Country more Islamic Finance friendly.
- A few years ago, France and Germany amended their financial/tax legislation to make those Countries more Islamic Finance friendly.



Sukuk Issuance – Overview Europe

- The main aim of these legislative changes and issuances in Europe is to create a strong Islamic Finance market there. The changes also seek to address challenges presently faced in relation to Islamic Finance, which have the effect of slowing the expansion of the Corporate Sukuk market.



- The lack of liquidity issue: presently investors face the risk that there is no assurance that a secondary market for Sukuk will develop.



- The market value of the Sukuk may fluctuate, consequently any sale of Sukuk by Sukuk-holders in any secondary market that may develop, could be at a discount from the original purchase price of such Sukuk and accordingly an investor in the Sukuk must be prepared to hold it until it has been redeemed, or all amounts then due have been paid in full.
- One of the reasons for the low level of liquidity is the lack of standard structures; this situation may discourage investors' appetite for Sukuk and slow down the expansion of corporate Sukuk.



- In such context, Governments hold a key role in the Islamic Finance market's development, through:
 - (i) The creation of an Islamic finance friendly environment, through *ad hoc* legislative changes.
 - (ii) The issuances of Sovereign Sukuk, to open the market and to create, at the same time, a benchmark for any future corporate Sukuk issuances.
 - (iii) Addressing the lack of liquidity issue, working for a standardization of the Islamic Finance structures through a wide Shariah Scholars concession (*Ijmaa*); working on permissible innovative harmonized products/structures (*Ijtihad*).



- (i) The creation of an Islamic finance friendly environment, through *ad hoc* legislative changes: this is the first step that a Government, which is willing to open to the Islamic Finance market, has to take (i.e. In Europe: UK, Luxembourg, Ireland, France, Germany).



- (ii) The issuance of a Sovereign Sukuk: this is a step forward that a Government has to take, after having put in place *ad-hoc* legislative changes; this is an important step to open the Islamic Finance market and to create, at the same time, a benchmark for any future corporate Sukuk issuances.
- In Europe, UK and Luxembourg Governments have issued their first Sovereign Sukuk; the Irish Government, despite of all legislative changes, has not taken the step forward yet.



- (iii) Another important step to be taken by a Government is the adoption of specific measures to address the lack of liquidity issue, often faced in the Islamic Finance markets. One of the most effective measure is the standardization/harmonization of Islamic Finance structures/instruments, conforming with various Shariah standards and different Shariah Scholars opinions (*Ijmaa*).
- It can be implemented, working on permissible innovative products/structures (*Ijtihad*), which harmonise the differences in Shariah compliance in the international Islamic capital market. The objection is to create international Shariah-compliant structures, that are widely accepted and tradable in the international Islamic capital market.



- In order to go beyond the Sovereign Sukuk and develop a market for corporate Sukuk, the Governments' involvement is required and at the same time the market of Sovereign Sukuk should be strong, rapid and consistent.



Thank You