



## **2008 London Sukuk Summit – Reception Lunch**

### **Hosted by UKTI**

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#### **Introduction**

Thank you, Richard, [Thomas, Managing Director of Global Securities House and Chairman of Gatehouse Bank] for that introduction, it's a pleasure to be here at the end of the second London Sukuk Summit – and I'd like to start by thanking UK Trade and Investment for organising today's lunch, as well as the work that they do to promote the UK abroad, including our financial services sector.

Over the course of this Sukuk Summit, you've had a series of excellent speakers from the UK, the Middle East, Hong Kong, Malaysia and Japan.

And I'm very pleased to have the chance to speak to you all myself – it's always a privilege to speak to a group of people with such experience in Islamic finance, and in sukuk structures in particular.

That has, of course, been the focus for this Conference. And it is absolutely appropriate that it should take place here in London.

This is the most international of international financial centres; and the Government here in the UK is – I can assure you –absolutely



committed to the development of the Islamic finance sector here in Britain, including a sukuk market.

Now, I don't want to keep you from your lunch for too long.

But I do want to give you a sense of just how important this sector is to us – and to outline what we are doing here in the UK both to promote corporate sukuk issuance, and to explore the possibility of issuing a UK Government sukuk.

### **Importance of Islamic Finance**

Let me start by telling you why we think this is so important – and about our two objectives for Islamic Finance.

Firstly, we want to make sure that London is at the forefront as this sector develops, and that it stays there.

And secondly, we want to make sure that everyone can participate fully in the financial system – and that no-one has their choice of financial services limited by their religion.

Those are two quite different objectives.

But they both mean encouraging the development of Islamic Finance here in the UK, including a sukuk market – which is good for the City, and which provides retail Islamic banks here in the UK



with wider liquidity management tools, and with the platform on which to base new products.

And we have had some real successes.

There are now 18 sukuk listed on the London Stock Exchange, worth £13 billion, including a Bahraini sovereign issuance and the landmark Aston Martin sukuk.

While there aren't yet any sukuk issued from London amongst them, I hope that we'll be celebrating the first – whether corporate or sovereign – in time for next year's summit.

More widely across the Islamic finance sector, we have an Islamic mortgage market here worth more than £500 million; and the UK's sharia'a compliant banks have more than 40,000 customers.

And we also have the only standalone Islamic financial institutions in the EU, and more banks providing Islamic financial services here in London than in the rest of Western Europe combined – just this week, I attended the launch of the UK's 6<sup>th</sup> standalone Islamic Finance institution, the Gatehouse Bank.

### **Govt's work to facilitate corporate sukuk issuance**

We can be proud of that success – and of course the practitioners that have made it possible, including many of you here today, should be proud of it too.



But as ever, there is more to do.

To facilitate corporate sukuk issuance, for example, our aim – as it is across the sector – is to establish a level tax and regulatory playing field between conventional and Islamic finance.

Over the years, we've introduced a steady stream of legislation to move towards that – including introducing a new tax regime for listed sukuk at last year's Budget, allowing sukuk to be held, issued and traded in the same way as conventional corporate bonds.

But we aren't there yet.

In particular, as we announced at this year's Budget in March, we are now conducting two focused consultations to further facilitate the issuance of commercial sukuk in the UK.

First, we want to remove the Stamp Duty Land Tax barrier to sukuk issuance. [And I am pleased to announce that HM Revenue & Customs are today publishing a consultation on how this can be done with minimum administrative burden to corporations, and with the minimum risk of inadvertently facilitating avoidance.]

Second, the Treasury and the FSA will also be consulting in the early autumn on the regulation of sukuk. In keeping with our policy of treating Islamic financial products like their conventional



equivalents, we want to ensure that sukuk are regulated like debt securities, which they represent in substance; rather than collective investment schemes, which they represent in form.

I would certainly encourage you to respond to both of those consultations – and we would be delighted to hear from you.

### **Govt sukuk issuance**

As you'll know, as well as working to facilitate corporate sukuk, we've also been looking closely at the potential for the Government to issue sterling denominated sukuk.

It's very clear to us that Government-issued sukuk could have a number of benefits. In particular, it would show our continued ambition in this area, and that we're serious about making London a world centre for Islamic Finance – and we believe that it would help the City attract further sukuk structuring activity.

A Government issuance of sukuk, by providing a Sharia'a compliant asset that banks could then use to back Sharia'a-compliant retail products, could also help to increase the range of retail Islamic Finance products that are available.

But we want to make the right decision, and so we aren't going to rush the decision about whether to issue a Government sukuk.



And we have had to consider the potential costs and risks, and look closely at a number of detailed issues - I'm sure you don't need me to tell you just what a complicated issue this is.

We launched a consultation on this last year, and we published our response on 2 June, setting out a number of decisions that we have made.

We announced that the Government favours a 'bill-like' Sukuk programme, which could be fully integrated in to the conventional Treasury Bill programme; and that we think that over time, a rolling programme of £2 billion of sukuk issuance would be achievable.

And we also said that we would use a 'plain vanilla' Ijara based structure to facilitate sukuk issuance, if we go ahead.

## **Conclusion**

So, we have been making progress – not just on Government-issued sukuk, in fact, but across the sector.

And I think that most people would agree that the Government's actions, and those of the FSA, have had a real impact on the development of Islamic Finance in the UK.

However, we will need to keep up the momentum – on the issues that we are consulting on, which I've mentioned, and on the Government sukuk.



And that will mean working closely with the industry.

We're already doing that, including working with many of you here today; and we want to continue that in the months and years ahead.

As I hope I've made clear, we see Islamic Finance as a hugely important sector for the UK's competitiveness in financial services; as well as for giving everyone the best possible choice of financial services.

But there is more to do if we're going to make sure that London really is established as a leading gateway for international Islamic Finance; and that people really do have the same financial options whatever their religion.

We're determined to do that, including pushing ahead with our work on corporate and Government sukuk – and it is good to have the chance to speak to you about that today.

As I said at the start, we are delighted to have so many experts, from around the world, together here in London to share your expertise with each other, and with us.

And you are all hugely welcome.



I look forward to seeing many of you here again next year – when hopefully we will have even more successes to celebrate together.

Thank you for listening.

[Ends]