

Development of London as a centre for Islamic Finance

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- **Other centres have more diversified markets and higher trading volumes**
- **But London has made considerable progress over the last five years and has advantages which can be exploited in the future**
- **No doubt, therefore, that London is developing as a centre for Sharia compliant financing**

- **Since late 1980s, sizeable Murabaha Transactions across the London metal exchange**
- **Introduction of Sharia – compliant products on small scale by Middle Eastern and Asian banks in London (e.g. Islamic Mortgages)**
- **Development of Islamic windows by major Western banks – playing an important role in the markets then and now**

- **Main factors in the development of Sharia compliant finance in the UK:**
 - Worldwide growth in Islamic finance
 - Government policies to combat social exclusion (1.8 Million Muslims in the UK)
 - Bank of England /HM Treasury efforts to maintain London as a major international financial centre
 - So Retail and Wholesale strands

Role of the Financial Services Authority



- **Sole regulator of the UK financial services industry – 29,000 firms. Able to look across the whole sector**
- **Statutory Objectives include:**
 - Protection for consumers
 - Consumer Education
- **Principles of Good Regulation include:**
 - Having regard to the UK's competitive position; and to
 - Innovation and diversity in the UK financial industry
 - Again, Retail and Wholesale markets' strands

Regulatory Approach

- **Financial Services and Markets Act 2000**
 - Level playing field – no discrimination
- **Basic conditions have to be met, principally:**
 - Adequate financial resources
 - Sound management
 - Effective systems and controls plus
 - Credible Business Plan
- **We are a secular not a religious regulator**

Islamic Bank of Britain - Retail



- **Flexible within this framework – open minded**
- **First wholly Islamic bank in the West, 2004**
- **Difficult issues**
- **Risk/profit sharing philosophy**
- **Legal and regulatory definitions, particularly deposits**
- **Role of Sharia Board**
- **Promotional Material**

European Islamic Investment Bank - Wholesale



- **First standalone, Islamic wholesale bank in Western Europe, 2006**
- **Similar issues to Islamic Bank of Britain, e.g. Sharia Supervisory Board**
- **Again careful preparation to meet our basic conditions and willingness to accept advice**

Opportunities - Retail

- **2003 removal of double taxation on Islamic Home Finance. Now a growing market**
- **2007 removal of anomalies to protect consumers through regulation of Home Purchase Plans**
- **HMG examining other tax issues**
- **New products e.g. Childrens' Investment Trusts**
- **Education vital – FSA examples**

Opportunities. Markets – Sukuks (I)



- **Global Sukuk volumes estimated to reach \$100bn by end – 2007**
- **Strong demand from European as well as Middle Eastern investors**
- **First Sukuk issue on the London Stock Exchange in July 2006**
- **London very open. Now 6-8 outstanding issues**
- **Largest Aldar Properties \$2.5bn issue earlier this year**
- **Most recent Emirates Islamic Bank \$350mn (subscriptions from Far east (38%) and Europe (34%))**
- **Growing secondary market**

Markets – Sukuks (II)

- **Considerable scope for more**
- **London deep, liquid markets**
- **Skills – legal, accounting, market-making and product design**
- **Major London-based banks already structuring sukuk issues globally**
- **New Islamic bank authorisations in pipeline – possible expansion into Europe**

Markets – Sovereign Sukuk Issues (III) FSA

- At least 5-6 so far, including Malaysia, Bahrain and Dubai
- Possible HMG Issue
 - (i) Expert Group report back by Autumn 2007
 - (ii) Wide consultation underway
 - (iii) Cost/benefits, legal, tax and practical questions
- Likely to be well – received
- FSA assisting where appropriate

Markets – Other Instruments (IV)

Islamic Hedge Funds

- **Gulf product. Several listed on AIM e.g. Sharia Capital.**
- **Limited success so far as poor performance and doubts whether new mechanisms for short selling are Sharia – compliant**

Takaful

- **Similar in nature to Mutual Funds. Currently unregulated**
- **At infancy stage. Only offered by one regulated firm**
- **Real potential as Malaysian and Arab experience shows**

Other Instruments

- **Include Derivatives, Futures and Options**

Looking Ahead

- **Sharia – compliant financing has some way to ‘catch up’ with conventional finance**
- **London established good base – 25 institutions, growing range of products**
- **Scope for further growth – skills essential selling point**
- **FSA Occasional Paper - Autumn this year**