Islamic Finance news

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Malaysian International Merchant Bankers made Sukuk adviser for Ample Zone

Malaysian International Merchant Bankers Bhd (MIMB) has been appointed the principal adviser and lead arranger to arrange a US$39.47 million (RM150 million) Sukuk al-Ijarah for Ample Zone Bhd.

Ample Zone is the special purpose vehicle structured solely to facilitate an assets sale and leaseback transaction for the four commercial buildings owned by property developer, Talam Corp Bhd. Ample Zone is a subsidiary of Larut Management Services Sdn Bhd, also owned by Talam.

MIMB CEO Tunku Afwida Tunku Malek signed an agreement with Talam Executive Chairman Tan Sri Chan Ah Chye on the 10th January for the issuance. MIMB is also the sole primary subscriber for the Sukuk to be issued in three classes A, B and C with tenures varying from two to seven years.

Malaysian Rating Corp Bhd had assigned ratings of AAA-ID, AA-ID and A-ID for Class A, B and C respectively. The purpose of the Sukuk is to part-finance the purchase of the assets from Talam and make part payment of the issuance and other financing related costs.

Indonesia's first Shariah-based mutual fund launched

Asset management and financial services firm PT Insight Investments Management introduced on the 17th January Indonesia's first Shariah-based fund management service called the i-Hajj Shariah Fund.

"The i-Hajj Shariah Fund will offer investors not only financial yields but also an opportunity to put aside 1% of their net assets to help finance middle to low income people to go on the haj pilgrimage to Mecca," said Director Siti Arimbi Pulungan.

She said the company would use a minimum of 40% of investors' money for the purchase of Shariah-based bonds and medium-term notes and a maximum of 60% for the purchase of Shariah-based money market instruments, such as Bank Indonesia's Shariah promissory notes, Shariah interbank promissory notes and deposits in Shariah banks.

The company, she said, expected to sell one billion participation units at US11 cents (Rp 1,000) each during the first three years of operation. Each investor can buy a minimum of US$54.61 (Rp 500,000) worth of units.

For the operation of the i-Hajj Shariah Fund, Insight Investments Management received US$1.572 million (Rp 14.4 billion) in financial support from PT Taspen, PT Jamsostek, PT Bank Shariah Mandiri, BII Shariah Platinum, Krakatau Steel Pension Plan and four business people.

Qatar Islamic Bank allocates US$40.9 million for Al Jazeera Tower project.

Qatar Islamic Bank (QIB) finalised an Istisna'a contract for US$40.9 million (QAR149 million) to finance the Al Jazeera Tower. Al Jazeera Tower is a hotel and residential complex located in the WestBay area. The tower will have 36 floors and is to be completed by August 2006. QIB's Acting General Manager Abdullatif Al Meer said that Istisna'a contract is the one of the most successful financing modes offered by the region's Islamic banks.

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NEWS BRIEFS *(continued...)*

Pakistan kicks off sovereign bond deals with US$600 million Sukuk

Pakistan sold US$600 million in US dollar-denominated Islamic bonds on the 18th January, kicking off Asian sovereign bond issuance for the year. The Pakistan Islamic bond is the fourth Islamic sovereign debt issue after Malaysia, Qatar and Bahrain. There are also three quasi-sovereign issues: for the State of Saxony-Anhalt (Germany), the State of Sarawak (Malaysia) and Dubai.

News reports said Indonesia is now assessing fund-raising ideas submitted by bankers at the end of last week and the Philippines is widely expected to come to the market in February. Most other countries in the region - including China and South Korea - are also set to return with hefty benchmark issues.

"We were targeting US$200 million to US$300 million, but we were encouraged by the response we received which is about US$1.2 billion," Special Assistant to Prime Minister Shaukat Aziz Waqar Masood told the media in Islamabad.

Pakistan's five-year deal attracted orders from 82 accounts and was priced below its existing 2009 fixed-rate Eurobonds, if the longer maturity is taken into account - indicating investors were attracted to, rather than shaken by, the Islamic structure.

Pakistan returned to the international debt market in February 2004 with a US$500 million, five-year bond issue -- the first since economic sanctions were imposed after it conducted nuclear tests in mid-1998. The US$500 million Eurobond, sold this time last year, was trading around 216 basis points over London Interbank Offered Rate (Libor) on 18th January .

The Pakistan deal used the most typical Sukuk structure, whereby property is leased or sold to a special purpose vehicle, which then sells trust certificates to investors. In Pakistan's case, the bond was backed by highway land.

Lead managers Citigroup and HSBC sold the debt at par to yield 220 basis points over the six-month Libor. That was at the bottom end of revised guidance of 220 to 225 basis points over Libor indicated earlier in the day.

The two banks had originally offered the bonds at a spread of 220 to 235 basis points over Libor.

Demand for the debt was widespread. The bond was distributed 47% to the Middle East, 31% to Asia and 22% to Europe. At over US$250 million, the Asian order book was "pleasantly surprising," said a banker familiar with the deal. Part of the attraction was the rarity of Pakistan debt. Many investors also believe the country is underrated at B2 by Moody's Investors Service and B+ by Standard & Poor's Ratings Services. The primary market has also been quieter than expected.

This is unlikely to be Pakistan's last Islamic debt issue. Although the country says it is in no need of money, it is keen to return to the market frequently to establish benchmarks. Two weeks ago Pakistani Minister Dr Salman Shah said his country was keen to learn from Bahrain's experience in this highly specialised segment of the bond market.

"We don't want to raise more money from this issue, rather we want to create the market for Islamic bonds. We're keen to learn from Bahrain's experience in Sukuk, and after the launch we'll be looking at developing the domestic Sukuk market in Pakistan," the Minister explained.

NEWS BRIEFS *(continued...)*

State Bank of Pakistan plans Islamic money market fund

The Pakistan Central Bank State Bank of Pakistan (SBP) disclosed last week that it plans to start an Islamic money market fund. Director of Accounts Taslim Kazi told participants of the Interest-Free Islamic Banking and Modern Banking System seminar that the central bank also planned to start a Shariah compliant money market in the country.

He added that the Central Bank had taken concrete steps to pave the way for Islamic banking in the country. He urged bankers and all professionals associated with Islamic banking to strive to lower the cost of Islamic financial products so that more customers could be lured to the ambit of Islamic banking.

He disclosed that for the first time in the country's banking history, on-site inspection of monetary transactions of Islamic banking is being carried out.

Syabas plans long-term Sukuk bond offering

Malaysia's Syarikat Bekalan Air Selangor Sdn Bhd plans to issue US$473.684 million (RM1.8 billion) in long-term Sukuk bonds to finance the replacement of old water pipes. It was reported recently that the company 70%-owned by Puncak Niaga Holdings Bhd will issue the bonds by mid-2005.

Syabas supplies and distributes water in central Malaysia's Selangor state, the country's most populous area, with a population of over 5 million people.

Faisal Islamic Bank of Egypt total assets at US$2.67 billion

The total assets of Faisal Islamic Bank of Egypt reached US$2.67 billion (15.61 billion Egyptian Pounds) at end-December 2004, up from US$2.39 billion (13.94 billion Egyptian Pounds) at end-December 2003, the bank said in a statement.

Customer deposits at the bank rose 14% year-on-year to US$2.42 billion (14.11 billion Egyptian Pounds) at end-2004 and total shareholders' equity increased to US$106.4 million (621 million Egyptian Pounds) from US$97.4 million (569 million Egyptian Pounds). The bank is to hold a general shareholders' meeting on 25th March to discuss its 2004 financial results.

Faisal Islamic Bank of Egypt was established in 1979 and is listed on the Cairo and Alexandria Stock Exchanges.

Kuwait Finance House 2004 net profit hits US$254.9 million

The net profit of Kuwait's Islamic bank and financial services provider Kuwait Finance House (KFH) rose to US$254.9 million (74.41 million Kuwaiti Dinars) in 2004, up from US$199.2 million (8.16 million Dinars) in 2003.

The bank's earnings per share grew to US32 cents (96 Fils) in 2004 from US28 cents (81 Fils) in 2003. KFH's Board of Directors proposed a cash dividend of US17 cents (50 Fils) per share for 2004 and distribution of 10 bonus shares for every 100 shares held. (There are 1,000 Fils to the Kuwaiti Dinar.)

KFH reported a net profit of US$166.6 million (48.64 million Dinars) for the first nine months of 2004, up from US$132.1 million (38.55 million Dinars) in the corresponding period in 2003.

UAE First Gulf Bank 2004 net profit rises to US$66.7 million

The net profit of UAE Commercial Bank First Gulf Bank rose to US$66.7 million (Dhs244.9 million) in 2004 from US$32.9 million (Dhs120.9 million) in 2003, the bank announced on 17th January .

The bank's total assets grew to US$3.486 billion (Dhs12.8 billion) from US$1.969 billion (Dhs7.23 billion). Loans and advances to customers climbed 29% year-on-year to US$1.77 billion (Dhs6.5 billion), while customer deposits rose 70% to US$2.723 billion (Dhs10 billion).

The bank's interest income increased 74% to US$83.3 million (Dhs305.8 million) and other income rose 103% to US$51.4 million (Dhs188.9 million). In 2004, First Gulf Bank issued US$217.8 million (Dhs800 million) worth of five-year convertible bonds, which led to a 128% increase in the bank's shareholders' equity to US$485 million (Dhs1.78 billion).

NEWS BRIEFS *(continued...)*

Devon Bank, Freddie Mac announce expanded financing options for Muslim homebuyers

US-based Devon Bank announced on 13th January that it would begin selling its Islamic home financing products to one of the country's largest investors in mortgages and Islamic home financing products, Freddie Mac. This move would expand financing opportunities for prospective Muslims homebuyers living in Illinois (Devon Bank's home base) and nine other states.

Devon Bank's Islamic housing finance model uses carefully tailored real estate financing documents, in accordance with state and local law, and functions similar to a conventional Freddie Mac mortgage.

"For the past two years Devon Bank's Islamic financing programs have enabled observant Muslims throughout the Chicago area and some other states to acquire homes and businesses in a manner consistent with their faith," said Devon Bank Chairman Richard Loundy. He added that Freddie Mac's agreement to purchase many of its Islamic home financing contracts would enable the bank to assist more observant Muslims in places where it operates.

Like its other Islamic financing products, Devon Bank vetted its new Islamic home financing initiative through the Shariah Supervisory Board of America and worked closely with numerous other US and overseas Islamic scholars. The Board advises people and institutions across the country on products for the nation's estimated six million Muslim consumers.

Meanwhile Freddie Mac Senior Vice President of Single Family Sourcing Dave Stevens said: "The agreement with Devon Bank further demonstrates Freddie Mac's commitment to help America's newest communities realise the traditional benefits of the American dream of home ownership."

He added that Freddie Mac's agreement to invest in the mortgages underscores its mission to expand homeownership opportunities for all of America's households, including the nation's estimated 2.5 million Muslim households. In March 2001, Freddie Mac became the first major U.S. mortgage investor to contract to purchase Islamic homeownership products.

Freddie Mac is a stockholder-owned corporation established by Congress in 1970 to support homeownership and rental housing. Freddie Mac purchases single-family and multifamily residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage pass through securities and debt instruments in the capital markets. Over the years, Freddie Mac has opened doors for one in six homebuyers and more than two million renters in America.

Takaful supervision and regulation emphasised at seminar

The remarkable growth in Islamic insurance, or Takaful, should propel insurance regulatory bodies and experts to draw up a legal framework for the supervision and regulation of this ground-gaining industry, said panellists at an international seminar.

They stressed that regulations must be consistent with international insurance norms and that this growing industry should not jeopardize conventional insurance establishments.

The seminar on the Regulation of Takaful, Insurance is organised by the IC in cooperation with the Islamic Financial Services Board (IFSB). It precedes a three-day International Symposium on Islamic Insurance, also organised by the IC in cooperation with the UK-based Islamic Conferences Group.

Norton Rose advises Dubai Islamic Bank on Islamic aircraft leasing facility

International Law firm Norton Rose has advised Dubai Islamic Bank in relation to the purchase and Shariah compliant leasing of two Boeing 767 aircraft to Condor Flugdienst GmbH. The financing for the acquisition comprised a Shariah compliant structure integrating conventional debt with Shariah compliant equity.

Norton Rose Senior Associate Nadim Khan who led the Norton Rose team said: "We are seeing an increasing amount of activity being undertaken by Islamic financial institutions in the aviation sector and were delighted to have had the opportunity of working with Dubai Islamic Bank on this deal."

The Norton Rose Dubai team was led by Senior Associate Nadim Khan assisted by Associates Paul McViety, Chi Hoong Chang and trainee Emma De Ronde. Denton Wilde Sapte advised the conventional lender.

NEWS BRIEFS *(continued...)*

DFSA admitted to Islamic Financial Services Board

The Dubai Financial Services Authority (DFSA) announced on 17th January that it has been admitted as an Associate Member of the Islamic Financial Services Board (IFSB), which serves as an international standard setting body of the regulatory and supervisory agencies that have a vested interest in ensuring the soundness and stability of the Islamic financial services industry.

"Becoming a member of the IFSB is an important step forward for the DFSA. The IFSB is one of the leading industry associations for Islamic finance and standard setting, and the DFSA looks forward to a productive relationship with the IFSB in our capacity as an Associate Member", said Chairman of the DFSA Board Dr Habib Al Mulla,

The objectives of the IFSB include the promotion of and development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing, international standards consistent with Shariah principles, and recommending these for adoption and providing advice and guidance on effective supervision to institutions offering Islamic products.

The IFSB also liaises and co-operates with relevant organisations currently setting standards for the stability and the soundness of the international monetary and financial systems and those of the member countries.

Bahrain Financial Harbour Chairman invited to World Economic Forum as a "Young Global Leader"

Esam Janahi, Chairman of Bahrain Financial Harbour (BFH), CEO and Board Member of Gulf Finance House Group (GFH), Vice Chairman of Gulf Finance House Commercial Bank (GFHCB), and a Shura Council Member, has been invited to attend the World Economic Forum (WEF) Annual Meeting as a "Young Global Leader". The meeting will be held in Davos from 26th-30th January .

Janahi is expected to take part in the activities of The Forum of Young Global Leaders, a newly formed, unique multi-stakeholder community of exceptional young leaders who share a commitment to shaping the global future. According to WEF, the Forum brings together young leaders who are currently internationally prominent and those who are destined for future greatness.

Commenting on his selection, Janahi said: "It is an honour for me and the organisations I represent to be chosen as a 'Young Global Leader' by a committee comprising of eminent members. The nomination will further encourage me to strive ahead and contribute to the development and growth of the society in the Kingdom of Bahrain and the World in general."

Janahi is said to be the driving spirit behind an array of GFH-led projects such as the US$1.3 billion Bahrain Financial Harbour, the US$600 million Al Areen Desert Spa and Resort and a US$3.8 billion theme park, Legends, in Dubailand.

He has also been nominated by the World Islamic Banking Conference 2003 in Bahrain as the "Islamic Banker of the Year".

NEWS BRIEFS *(continued...)*

Bahrain's Takaful International teams up with Lebanese healthcare services providers

Bahrain's Shariah compliant insurer Takaful International Co has recently teamed up with Lebanon's National Council for Health Tourism and the Lebanese company K&M International - Health Tourism is to provide healthcare services to its customers, it was reported on the 19th January .

The recently concluded contracts will allow holders of Takaful International health insurance cards to benefit from medical services in Lebanon from early February 2005, said the company's General Manager Younis al-Sayed Jamal.

The new agreements are a step towards the expansion of the company's healthcare services network, which presently covers the Gulf Cooperation Council (GCC) countries, Jordan and several European countries. Takaful International plans to shortly team up with other healthcare services companies, hospitals and medical centres worldwide.

To supplement the medical services offered to health insurance cardholders, Takaful International launched in 2004 the free SOS service, which allows the provision of emergency medical evacuation worldwide. Presently, there are some 7,000 holders of Takaful International health insurance cards, the company said. The number is expected to increase to 10,000 in the next few months.

Islamic Bank lends US$62 million

The Jeddah-based Islamic Development Bank (IDB) recently announced that it had signed five agreements with Lebanon – extending a total of US$62 million in loans to Lebanon. The loans are to finance projects overseen by the Lebanese Council for Development and Reconstruction (CDR) and include US$32.4 million for the construction of a section of the southern coastal highway, a statement said.

IDB said US$12.5 million of the loan will furnish "three hospitals and three other health centres in the South", while US$7 million will fund the construction of a new road in the northern region of Beshare.

The CDR recently announced US$700 million worth of projects that will be implemented throughout Lebanon. Besides the IDB Lebanon is receiving soft loans from the World Bank and other international agencies to help in the construction of hundreds of development projects, especially in rural areas.

The IDB is the financial arm of the Jeddah-based Organization of the Islamic Conference (OIC), which comprises 56 Muslim countries. The OIC has extended numerous loans to many countries in the past few years.

Turkish Islamic banks to secure up to US$10 billion borrowings from Gulf countries

Turkish Islamic banks, known as special finance houses, are seeking to secure borrowings of between US$5 billion and US$10 billion from the Gulf countries in the near future, it was reported on the 12th January. The special finance houses will try to attract part of the idle capital in the Gulf region, accumulated after the 11th September 2001 terrorist attacks in the US and the recent rise in oil prices, Secretary General of the union of Turkish special finance houses Osman Akyuz said.

The five Turkish interest-free banking services providers have so far secured directly and through syndicated loans a capital inflow of US$1 billion.

Meanwhile Turkish mobile phone operator Turkcell secured a Murabaha loan of US$100 million and fuel retailer Petrol Ofisi (POAS) received a US$92.5 million Islamic credit in 2004. Construction group Tepe-Akfen Vie, industrial conglomerate Zorlu and electronics maker Vestel also received Islamic loans in 2004.

NEWS BRIEFS *(continued...)*

National Bank of Sharjah 2004 net profit up 16.4%

UAE's National Bank of Sharjah reported a 16.4% year-on-year increase in net profit to US$19.4 million (Dhs71.32 million UAE) for 2004. The bank's board of directors, that met on the 11th January proposed to distribute a total US$10.5 million (Dhs38.56 million) in cash dividend for 2004 – accounting for 10% of the bank's paid-up capital.

The proposal is to be discussed by the bank's shareholders at a meeting scheduled for the 2nd February. The meeting is also to approve a change in the bank's name and the board's proposal for a rights issue which is to increase the bank's paid-up capital to US$272 million (Dhs1.0 billion) from US$105 million (Dhs385.684 million).

The new shares are to be offered to existing shareholders at a par value of US68 cents (Dhs2.5) and a premium of US68 cents (Dhs2.5). According to the National Bank of Sharjah's preliminary statements, presented to the UAE Securities and Commodities Authority (SCA), the bank's earnings per share (EPS) rose to US12 cents (Dhs0.46) in 2004 from US10 cents (Dhs0.4) in 2003.

Total assets grew to US$940 million (Dhs3.454 billion) at end-December 2004 from US$718 million (Dhs2.638 billion) at end-December 2003.

Al Bilad US$400m IPO

Saudi Arabia's newly-created Al Bilad Bank will offer 30 million shares worth US$400 million, the equivalent to half its capital, in an initial public offering from the 21st February to the 9th March. The Riyadh-based Islamic bank will have up to forty branches across the Kingdom in its first phase.

Islamic Bank of Brunei offers Sukuk for local business

The Islamic Bank of Brunei has taken the initiative of promoting more products in its investment and finance services by offering Sukuk to entrepreneurs in the country.

The bank has also proposed a special provision of financing service for small and medium entrepreneurs. Bank Chairman Pehin Dato Awang Haji Abu Bakar who is also Minister of Health disclosed this recently.

He added that the bank will take appropriate measures to further upgrade its involvement in the development of small and medium entrepreneurs in which the management sector has been asked to work out a special financial aid scheme.

He also said that with the present robust information technology, the bank plans to introduce a number of new services such as the International Finance Card, Short Message Service and other facilities.

Amlak posts 300% jump in net profit for 2004

Amlak Finance, the mortgage finance arm of Emaar Properties, has recorded 300% growth in net profit for 2004, according to Amlak Chairman Mohamed Ali Alabbar.

For the 9-month period ending the 30th September 2004, Amlak had earned a net profit of US$1.177 million (Dhs30.032 million). No dividend will be paid for 2004, according to reports in local dailies.

"In order to maintain a solid foundation to sustain Amlak's momentum for growth and expansion, the company's Board of Directors will recommend to the shareholders at the company's annual general meeting (AGM), scheduled to be held within the next two months, that no dividend be declared for the year ending the 31st December 2004," Alabbar said after the company's board meeting on the 11th January.

The meeting was convened to discuss the financial performance of Amlak during its first year of operation as a public joint stock company following its successful initial public offering (IPO) and subsequent conversion into an Islamic institution.

For the full year 2003, Amlak saw profits increase 300% to reach US$3.812 million (Dhs14 million) compared to US$953,029 (Dhs3.5 million) in 2002.

In the first half of 2004, net profits rose 447% to US$5.337 million (Dhs19.603 million) against US$975,336 (Dhs3.582 million) for the same period last year. The profit achieved in the first half of 2004 was also 40% higher than the entire profit for the year 2003.

Amlak Finance, the largest publicly-held Islamic finance company in the country, is traded on the Dubai Financial Market. Emaar Properties holds majority ownership and a 45% stake in the company.

Its growth strategy combined an IPO in January 2004 that was oversubscribed 33 times, increasing its capital to US$204.215 million (Dhs750 million) and accompanying its conversion into an Islamic financial institution that offers Shariah compliant products.

SAUDI ARABIA

INTERVIEW

Islamic Finance News Interviews Naseeruddin A. Khan, Managing Director RUSD Investment Bank

Could you explain briefly RUSD's strategy, structure, background and primary objectives?

RUSD Bank is a boutique Islamic investment bank that was structured to grow as its operations and activities expanded. The primary objective was to have a vehicle that could place the funds from its shareholders and investors in investments that strictly complied with the Shariah teachings.

RUSD was established with the shareholding from one of the largest groups of Islamic Insurance companies in the World to act as their investment and financial arm. The shareholders of the bank include: Islamic Insurance and Re-Insurance Company (IIRCO) of Bahrain, Islamic Arab Insurance Company (IAIC) of UAE, Bahrain-based Islamic Arab Insurance Company (IAIC) and Tunisia-based BEST Re (the largest Islamic re-insurer with a BBB rating).

There were a number of reasons for selection of Labuan as the place of RUSD's incorporation, namely the efficiency, transparency and the dynamism of the Labuan Offshore Financial Services Authority (LOFSA).

Who are your customers?

Our clients and investors are from within and outside the Gulf region, which include corporate entities as well as high net worth individuals. We are also catering to the investment needs of smaller investors through our specific purpose funds.

How have your plans for the bank changed over recent years and what were the driving forces?

RUSD's strategic plans have by far remained in line with those we had in mind at the time we were established. However, we are fine tuning those plans as we come across new opportunities as well as challenges and hurdles of the business.

What are the key objectives for your business over the next year? What market share do you hope to achieve?

Within the next year, RUSD Bank, in collaboration with consortium partners, will be establishing a full service Islamic bank in Malaysia. The approval for this bank is already granted and we are in the process of bringing all the ingredients together to lay the foundations of a major bank in Malaysia with participation from the Gulf region.

In addition to this there are quite a few other projects, which are in the pipeline and will see light within the current year. We are structuring new funds to target diversified geographical areas and different sectors to bring as many opportunities to our investors in the shortest possible time.

The Islamic banking license for Malaysia must provide you with an enormous potential, how does this help in your banking practices elsewhere? What challenges do you foresee for your business in Malaysia over the next 2 years?

RUSD is an offshore bank and therefore does not effectively operate in Malaysia. However, we have established a trust company in Labuan. An asset management company is also in the pipeline. In fact with these institutions we are taking the role of a bridge between the Gulf region and Malaysia. The only challenge we see ahead is how best we can serve the interests of the two regions and our clients.

When was the consortium plan first hatched?

RUSD had been working on this project since it was established. However, Bank Negara Malaysia's (Central Bank of Malaysia) announcement to issue 3 new licenses provided us the opportunity and facilitated our plans. The groundwork was already there and we found the platform to bring in other reputed Islamic financial institutions. This is how Qatar Islamic Bank (Qatar) and Global Investment House (Kuwait) joined us, and we were successful in obtaining the license from amongst quite a few serious contenders.

The consortium partners were open to each other and each partner was given the option to contribute whatever it was comfortable with. The shareholding was decided in perfect harmony among the stakeholders.

You've mentioned in the past that new Islamic products will be introduced into the Malaysian market. What new products do you envisage?

The financial institutions in the Gulf region have been in Islamic finance for a longer period than other countries. They have been at the forefront of this industry and their experience in product development and Islamic financial services will definitely help develop this market in Malaysia. This is the reason the Malaysian government issued the new banking licences.

How do you plan to roll out these products? Will they be generic products or developed with a particular client in mind?

We plan to introduce innovative Islamic financial products and services to our investors and clients, catering to their specific needs, through the new Islamic bank in Malaysia, RUSD Bank and other associate companies providing Islamic financial services. In addition to that the generic products will always be there. We are already in the process of introducing "Islamic Trust", a niche product of RUSD, and which on its own speaks of how we are moving forward.

SAUDI ARABIA

INTERVIEW *(continued...)*

Much of your planned business is to be between South East Asia and the Middle East, do you envisage the European and US markets playing a vital role in your future activities?

Yes we do have plans to diversify our activities and investments geographically and we are working on different funds that will be investing in technologies, real estate and other sectors in the US and Europe.

There is constant talk of the standardisation of Islamic products enabling unlimited and unrestricted cross boarder activity. Do you see this as feasible, and why?

The world has become a global village and with today's advanced technologies borders do not limit your reach, so cross border activity in the financial sector especially has tremendously increased. This requires standardisation that came first in the conventional financial setup, including banks and capital markets.

In order for Islamic finance to grow, it also has to adopt standardisation and the wheel has already been set to roll. There is a lot of work that is going on at this front, and Accounting and Auditing Organization for Islamic Financial Institutions (AAIOFI) and Islamic Financial Services Board (IFSB) are two example organisations that are working on this subject.

LEGAL REPORT

Securities Commission's Guidelines on the Offering of Islamic Securities *By Lim Tho Wei*

Under the Malaysian Securities Commission (Prescription of Islamic Securities) Order 2004 (the Order) which came into effect on 3rd July 2004, the Minister of Finance prescribes any product or instrument made available, offered for subscription or purchase, or issued pursuant to the Shariah principles of Mudarabah or Musyarakah as well as Sukuk issued pursuant to any Shariah principle as "securities" for the purposes of applying the provisions of Division 4 of Part IV of the Securities Commission Act 1993 (SCA). In addition, the Order means that Division 5 of Part IV the SCA will not be applicable to Islamic securites.

Consequent to the Order, on 26th July 2004 the Securities Commission (SC) released the Guidelines on the Offering of Islamic Securities (IS Guidelines). With the release of the IS Guidelines, the offering of any Islamic securities is no longer subject to the Guidelines on the Offering of Private Debt Securities (PDS Guidelines). Note that the IS Guidelines are not only applicable to products prescribed as "securities" by the Order, but also to any Islamic securities as defined in the IS Guidelines (see further below). The PDS Guidelines are still applicable to offering of conventional private debt securities.

According to the SC the IS Guidelines introduce an umbrella framework for Islamic securities which enables and facilitates the development of a more innovative and sophisticated Islamic capital market in Malaysia. The IS Guidelines are complementary to the strategic initiatives under the Capital Market Masterplan which aims to facilitate the development of a competitive and innovative Islamic capital market in Malaysia.

Islamic securities

The IS Guidelines stipulate the criteria which must be met with regard to any issue, offer or invitation of Islamic securities which fall within the ambit of the SCA. Any person who issues, offers for subscription or purchase, or makes an invitation to subscribe for or purchase of Islamic securities would require the approval of the SC under section 32 of the SCA.

The term "Islamic securities" is defined in the IS Guidelines to mean any securities issued pursuant to any Shariah principles and concepts approved by the Shariah Advisory Council of the SC and listed in Appendix 1 of the IS Guidelines. The Shariah concepts and principles approved by the SC include Bai Bithaman Ajil (deferred payment sale), Bai Inah (sale and buy back), Ijarah (leasing), Istisna' (purchase order), Mudarabah (profit sharing) and Musyarakah (profit and loss sharing).

The IS Guidelines provide that all issues, offers or invitation of Islamic securities, including those involving the issuance of Sukuk and those made under the principles of Musyarakah and Mudarabah must comply with Division 4 Part IV of the SCA. Division 4 Part IV of the SCA sets out, *inter alia*, the requirement of a trust deed, the appointment of a trustee and the duties and obligations of the issuer. In addition, in the event an Islamic securities arrangement falls within the definition of "unit trust scheme" or "prescribed investment scheme" under the SCA, such Islamic securities shall not be subject to Division 5 Part IV of the SCA.

Shariah Adviser

One important feature of the IS Guidelines is the requirement on the issuer of Islamic securities to appoint a Shariah Adviser to advise on all aspects of the Islamic securities. The Shariah Adviser is required to advise on the documentation, structuring, investment as well as other administrative and operational matters in relation to the Islamic securities.

The Shariah Adviser is also to assist the issuer in ensuring compliance with the applicable Shariah principles and also with the relevant resolutions and rulings made by the Shariah Advisory Council of the SC from time to time. A Shariah Adviser must fulfil either of the following criteria:

- an independent Shariah adviser who has been approved by the SC and is not an undischarged bankrupt, has not been convicted for any offence of a criminal nature, is of good repute and character, possesses necessary qualifications and expertise particularly in Fiqh Muamalah and Islamic jurisprudence and has a minimum of 3 years experience in Islamic finance; or
- an Islamic bank or a licensed institution approved by Bank Negara Malaysia to carry out an Islamic Banking Scheme.

In the case where an independent Shariah adviser is a corporation, such corporation must engage at least one *Shariah* expert who meets the former criteria above. Furthermore, the Shariah expert and the corporation concerned must not have breached any securities or banking laws since incorporation and there must be no winding up order or petition passed against that corporation.

Rating requirement

Similar to the PDS Guidelines, all issues, offers and invitations falling within the ambit of the IS Guidelines must be rated by a rating agency recognised by the SC. At the time of submission to the SC for approval, an indicative rating must have been obtained. However, a rating will not be required for any issue, offer or invitation of Islamic securities which are non-transferable and non-tradable and where the investors do not require a rating.

Other requirements

Further, in line with the PDS Guidelines, the IS Guidelines set out certain requirements for the issuance of Islamic securities, outlined as follows:

- *Other regulatory approvals*. Prior to submission of any information or declarations to the SC, all necessary approvals from other regulatory bodies must have been sought and obtained in relation to the issue, offer or invitation of Islamic securities. Any conditions imposed by such regulatory authorities must be complied with and continue to be complied with throughout the

LEGAL REPORT *(continued...)*

tenor of the Islamic securities;

- *Mode of issue.* Unless a listing in a Malaysian stock exchange is sought, all issues of Islamic securities under the IS Guidelines must be reported and/or tendered on the Fully Automated System for Issuing/Tendering (FAST) and must be made under the Real Time Electronic Transfer of Funds and Securities (RENTAS) as prescribed by Bank Negara Malaysia;
- *Utilisation of proceeds.* Funds raised from issue, offer or invitation of Islamic securities in Malaysia must not be channelled to finance activities contained in the negative list which may be announced by the National Bond Market Committee from time to time; and
- *Additional requirements for Islamic securities programmes*. The tenor of an Islamic securities programme involving an issuance of commercial papers or a combination of medium term notes and commercial papers must not exceed 7 years.

Investor Protection

It is imperative that potential investors are able to assess the risks and considerations of investing in Islamic securities. As such, the IS Guidelines require that where a prospectus is not required, an information memorandum must be made available to investors for any issue, offer or invitation of Islamic securities issued under the principles of Mudarabah or Musyarakah.

Approval Process

Like the PDS Guidelines, under the IS Guidelines, an issuer and the principal adviser must submit to the SC certain documents, information and declarations as set out in the IS Guidelines. The IS Guidelines provide that the SC will be able to give its approval on a proposal within 14 days from the date of its receipt of all complete declarations, information and documentations. This will be limited to issue, offer or invitation in respect of Islamic securities that is not capable of being converted to equity or issue, offer or invitation of Islamic securities by a private company.

In addition to the above, it is important to note that save for a shelf registration scheme or an Islamic securities programme, any approval given by the SC under the IS Guidelines must be implemented within 6 months from the date of SC's approval.

The IS Guidelines appear to have been set out in a similar direction as the PDS Guidelines. A distinct feature of the IS Guidelines is the requirement that an information memorandum must be provided to investors in relation to Islamic securities not requiring a prospectus and issued under the principles of Mudarabah and Musyarakah. Further, it is now clear that the unit trust regime as set out in Division 5 of Part IV of the SCA will not be applicable to Islamic securities which represent beneficial interest in certain trust assets, the structure of which has become very popular in issuance of Islamic products overseas.

Note: The author is Senior Associate, Banking and Finance Practice, Zaid Ibrahim & Co.

ISLAMIC FINANCE TERMINOLOGY

Al Ajr
Refers to commission, fees or wages charged for services.

Al Fard al Kifa'i
Socially obligatory duties. Literally, a collective duty of Muslims, the discharge of which by some of them absolves the rest of its performance, such as funeral prayers. Technically it covers such functions which the community fails to or cannot perform and hence are taken over by the state, such as the provision of utilities, building of roads, bridges and canals etc.

Amana/Amanah
Lit: reliability, trustworthiness, loyalty, honesty. Technically, an important value of Islamic society in mutual dealings. It also refers to deposits in trust. A person may hold property in trust for another, sometimes by implication of a contract.

Al Wadiah/ Al Wadia (Safe Keeping)
Resale of goods with a discount on the original stated cost.

Al Rahn Al
An arrangement whereby a valuable asset is places as a collateral for a debt. The collateral may be disposed off in the event of a default.

Bai Muajjal (Deferred Payment Contract)
A contract involving the sale of goods on a deferred payment basis. The bank or provider of capital buys the goods (assets) on behalf of the business owner. The bank then sells the goods to the client at an agreed price, which will include a mark-up since the bank needs to make a profit. The business owner can pay the total balance at an agreed future date or make instalments over a pre-agreed period. This is similar to a Murabaha contract since it is also a credit sale. There is a financial institution in Malaysia that offers an Islamic Visa card based on this type of contract.

Bai al Dayn
Debt financing: the provision of financial resources required for production, commerce and services by way of sale/purchase of trade documents and papers. Bai al-Dayn is a short-term facility with a maturity of not more than a year. Only documents evidencing debts arising from bona fide commercial transactions can be traded.

Bai Bithaman Ajil
This contract refers to the sale of goods on a deferred payment basis. Equipment or goods requested by the client are bought by the bank which subsequently sells the goods to the client an agreed price which includes the bank's mark-up (profit). The client may be allowed to settle payment by instalments within a pre-agreed period, or in a lump sum. Similar to a Murabaha contract, but with payment on a deferred basis.

CLICK HERE FOR MORE TERMINOLOGY

SECTOR REPORT

ISLAMIC WEALTH MANAGEMENT

By Prof. Dr. Mohd. Ma'sum Billah

Wealth management is an important aspect in Islam. Since we are not the absolute owners of the wealth in this world, we have the duty or responsibility to manage it in the best way we can. In Islam wealth is known as "mal" and it can be recognised as such when one possess, secures or stores it. In the conventional perspective wealth is totally owned by man and man can use the wealth in any way he feels like using it.

Wealth management in Islam can be viewed from different perspectives. These include Zakat management, inheritance, wills and testaments, estate planning, managing cash and savings, managing of tax and state duty, and different business transactions.

This article is based upon gaining an understanding of how wealth is managed from an Islamic framework together with the worldview of Islam. The article discusses Shariah rulings and the framework that governs wealth management in Islam.

Among other issues, these rulings touch on the use and administration in different circumstances pertaining to the question of "how to utilise the wealth?" and "who is capable of administrating the wealth?" These Shariah rulings act as a benchmark against which efforts at managing wealth are measured, and thus, ascertain that those involved in managing wealth do so in line with the Quran and Sunnah.

Zakat planning

An important issue in the management of wealth in Islam is the paying of Zakat, one of the five pillars of Islam. Each Muslim who has the ability to pay Zakat is obliged to do so. The paying the Zakat is a form of wealth management because the wealthy Muslims will be able to spread some of their wealth to needy Muslims.

Zakat plays an important role in the distribution of wealth and income. It reduces the gap between the haves and the have-nots, and induces saving and consumption behaviours in addition to the fact that it helps mobilise income for redistribution.

Islam discourages funds to remain idle, simply because there is no interest, as compared to the conventional system which makes up for earned income with no effort involved. If we look at the saving decision, we notice that idle savings in Islam are penalised because a Muslim is expected to pay Zakat. At the end of the day he remains worse off because for every US$100 that he saves, he loses US$2.50 (2.5% Zakat ratio). Hence, his rational option would be to incorporate investment expectations into his savings decisions.

Assuming he sees no light in the direction of investment expectations, he might reduce savings and increase consumption in the process, which does not go along with the poor investment expectations. Thus, inclusion of these expectations in the savings decision paves way for a balanced system.

Zakat allows a minimum living standard for all residents in an Islamic society, unlike the capitalist system where the savings of the haves double and multiply through interest, and the have-nots have no social insurance because there is no Zakat.

It goes beyond reasonable doubt that Zakat clearly illustrates the manner of wealth management in the Islamic framework. What is required then is a proper vehicle to channel Zakat funds. This involves knowing not only the nature and the criteria of Zakat, but also items through which Zakat can be channelled.

Business transactions

Business transactions in an Islamic framework come in various ways and cater to different parties or groups of people in various circumstances and situations. This might involve a Mudarabah* agreement, where one party, say a bank, provides capital and another entrepreneurship; a Mudarabah transaction, which can be described as a partnership between investors and borrowers in a profit-sharing agreement involving re-sales; Al-ijarah contract, which is a contract of letting; and Qirad, which is wealth entrusted upon an agent by an investor for commercial use.

All of these transactions indicate how wealth in its various forms is used or managed from an Islamic point of view.

Banking institutions have a unique way of managing wealth. Banks manage wealth through their various modes of financing such as Mudarabah, Musharakah, and Murabaha.

Let us look at the Mudarabah mode of financing. As we know Mudarabah involves two or more parties coming together and agreeing upon, one party contributing labour and the party contributing the wealth (capital) to carry out a business. So through this definition you will discover that there is sharing of wealth, effort and responsibility. If one party or person has the effort but not the means, he can go to the bank and obtain Al-qard-hasanah and start a business, which at the end of the day will involve the sharing of profits.

Therefore, banks indirectly manage wealth by giving Al-qard-hasanah to the needy people who have the ability but not the means to carry out the business.

This is unlike the conventional banks, were loans are given and interest (Riba) charged upon the borrower. This is not called managing wealth or helping the needy, but it is called exploiting the borrower. The borrower has to pay on top of the money that he/she has got a fixed amount of interest, which is forbidden in Islam.

In the Musharakah mode, two or more people come together to carry out a business and the profits are shared in equal proportions. Let me provide an example to show how Musharakah is a form of wealth management.

Say a person is interested in starting a business of selling books. That business needs a capital of US$200,000 but this person does not have that kind of money. He has US$100,000 which is not sufficient to start that business. So he goes and sees a friend and asks him if he is interested. Let's say the friend's response to the request is positive and he provides the remaining US$100,000 needed. In this way they have formed what we call a partnership in conven-

SECTOR REPORT *(continued...)*

tional terms and Musharakah in Islam. (Musharakah can be made between banks, institutions and other normal businessmen.)

Al-Ijarah

Al-Ijarah, also known as Al-kira' refers to rent, lease or usage. In an Islamic financial system, Al-Ijarah is a contract of selling of benefits or use or service for a fixed price or rent. Being a contract like that of sale, Al-Ijarah is concluded with offer and acceptance.

With the Ijarah facility, the main idea behind the contract is the transfer of usage or benefit and not ownership. For this contract to be legally operational, the following guiding principles are required:

- The usage/benefit must be clarified with regards to the period of lease and the types of usage.
- The lessee is capable of utilising the benefit of the lease fully.

Al-Ijarah facility can only be valid if it meets the following conditions from an Islamic perspective namely that the owner of the asset or lessor, the user or holder of the asset or lessee, the asset/equipment, benefit/service, the rent/price and offer and acceptance have all been stated clearly in the contract of Al-Ijarah.

Al-Ijarah financing extends from short to medium-term financing in equipment, motor vehicles, machines, computers, and consumer goods among other things. The usage of the asset should not contain any elements of haram (forbidden).

The bank's manner of financing Al-Ijarah contract generally follows the following procedures:

- Determination of the needs of the customer where the equipment and the lease period is concerned under the Shariah principles
- Purchasing the required equipment by the bank
- Leasing the equipment to the customer at an agreed price and period. The total lease rental of the bank is a combination of the cost of the equipment and the profit margin for the bank

The purpose of this kind of contract is the transfer of usage or benefit, but the bank retains the ownership of the asset. In the event the customer dishonours the agreement, the bank can repossess the equipment immediately. However, the lessor can also not rescind the contract anytime he wishes to.

Being a finance lease, the Al-Ijarah contract is non-cancellable. In the event this happens, say due to the involuntary of the asset, the lessor will have to be compensated.

Unit trust

Unit trust is an investment instrument in which many investors who share similar investment objectives pool their resources together. These resources are then invested by specified fund managers in specified or authorised securities. There is no profit sharing between the fund manager and the investors but a fee known as Ujrah is incurred by the investor for the professional services under Al-Wakalah* contract.

In the Islamic unit trust, there is usually a Shariah panel (Shariah supervisory board) which decides which share to fund by using the Activity or Structure method. Aside from the Al–Wakalah agreement, Islamic unit trust also involves indirect Musharakah system (equal to unequal share partnership) between investor and companies trading stocks or bonds. Capital gains and dividends are for the investor but for every purchase or sale of units, the company (fund manager) receives a fee. Any losses incurred due to adverse market conditions do not affect the shareholders wealth.

There is a Sharii and Tabii dimension to the Islamic unit trust. The former inculcates Akhlaq (ethic) in the agreement following the concept of Tawhid. This helps weigh actions from the reasoning point of view as well as spiritual values. That the management receives a fee calls on the use of conduct research and application of funda-

SECTOR REPORT *(continued...)*

mental and technical analysis in the stock selection; so that the element of Gharar (uncertainty) and Maisir (gambling), among others are eliminated.

Fund managers are expected to follow price changes as caused by company performances so that losses are minimised and capital gains achieved.

Inheritance

Another way by which Islam manages wealth on a small scale is by inheritance. We say on a small scale because this is done at the family level. This wealth left by deceased parent(s) is to be divided among immediate family members in an appropriate manner stated in the Quran and Sunnah.

In the conventional way there is no proper manner in which the wealth is to be inherited. Although the deceased leaves behind a will some weaknesses or injustices do occur.

The weakness is that the conventional way has no room for the distribution of income. For example, if the rich only marry the rich and the poor also marry the poor, the wealth will just circulate among the rich and the poor will remain poor. Therefore it has no room for the distribution of income or wealth.

Final thoughts

Wealth management from an Islamic perspective follows the guiding principle of Shariah, which, to a large extent, takes a different route from the conventional point of view. Throughout this article there is the intention to show that distinction.

However, the article also seeks to convey the point that owning wealth in Islam does not make anybody the absolute owner of that wealth. Wealth is merely entrusted upon us by God and thus, it has to be used and arranged in accordance with God's approval as stated in Shariah rulings.

Ownership can be acquired through many ways as in a sale contract or gift; making someone the successor of another (the case of inheritance), and the acquiring of an item that free for the public's use. In all of these circumstances, Islam has a way of managing wealth that is different from conventional ways.

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***TERMINOLOGY**

Mudarabah - Mudarabah is an Investment partnership, whereby the investor (the Rab ul Mal) provides capital to another party/entrepreneur (the Mudarib) in order to undertake a business/investment activity. While profits are shared on a pre-agreed ratio, loss of investment is borne by the investor only. The mudarib loses its share of the expected income.

Al Wakala - Absolute power of attorney

SECTOR REPORT

Venturing Into New Territories: Innovative Islamic Funds' Structures

By Ayman H. Abdel-Khaleq

In recent years, the Islamic banking industry has launched a series of Shariah compliant investment funds – ranging from the relatively straightforward long-only equity funds to the more challenging private equity, venture capital and short-only funds.

The general intention of most fund promoters appears to be to mirror structures familiar to western bankers and investors. This is true with respect to both the form the product takes and the underlying substantive investment objectives sought to be achieved for the investor. The investment managers, Wakeels or Modarebs, as the case may be, usually adhere to pre-defined investment guidelines that set out the industries in which the fund may invest and the financial ratios it must maintain.

This article provides a brief summary of variations to Islamic long-only equity funds that have been structured and offered successfully to investors in recent years. Such structures include Shariah compliant variations to typical real estate funds, capital protected instruments, unit-linked products, internal funds and listed equity certificates.

Real estate funds

Although real estate is hardly a new Islamic asset class, it is only of late that financial institutions have been able to package real estate in the form of investment funds for offer to retail investors in the Gulf Cooperation Council. This is quite an achievement given the fact that traditionally these funds were restricted to prime real estate in Europe and the US and were offered only to institutional and high net worth investors.

Some variations include real estate funds (blind pools) that invest in properties satisfying certain investment criteria and those that invest in the development of a specific property. Sukuk issues appear to be more common in this context and in fact are probably the more suitable conduit, although there are cases in which investing in a major property has been achieved using an investment fund as a vehicle. (For example, the Durrat Al-Arus Fund of The National Commercial Bank that invested in the Durrat Al-Arous project outside Jeddah, Saudi Arabia).

Another interesting proposition are leasing funds in which the underlying assets are equipment such as computers, cash machines and machinery. Investment funds which invest in this asset class have to deal with a mixture of legal and Shariah considerations that pertain to the jurisdiction of the assets, the jurisdiction of the offering, scope of due diligence, role of investment managers, fixed and floating rates of return, credit enhancements, residual value, and taxation, among other issues. (For example, in the US there are significant tax advantages if a lease is to be classified as a financial lease).

***TERMINOLOGY– Bai Al-Arboon**
A sale agreement in which a security deposit is given in advance as a partial payment towards the price of the commodity purchased. This deposit is fortified if the buyer failed to meet his obligation

Capital protected funds

A widely accepted Islamic alternative to conventional capital guaranteed funds are Islamic capital protected instruments. Most Shariah compliant capital protected funds and instruments use two investment mechanisms to achieve the required investment objective namely: a Murabaha instrument which involves the investment of the bulk of the monies raised from investors in a fixed-term commodity trade transaction or a series of such transactions; and a Bai Al-Arboon* (a Shariah alternative to call options) transaction in which the fund invests a small percentage (for example 10%) of the monies raised from the investors to purchase an option over a basket or portfolio of Shariah-compliant shares or commodities.

The Murabaha transactions, customarily viewed as low risk transactions, are structured to generate the required capital protection, while the Bai Al-Arboon transaction(s) are intended to increase returns. If the basket of shares subject to the Bai Al-Arboon depreciates, the fund manager will not exercise the option and the payment price for the option will have been lost. The underlying Murabaha transactions, however, are structured to compensate for the lost option payment thereby protecting, but not guaranteeing, the capital.

The process of developing an Islamic alternative to call options was spearheaded by the National Commercial Bank (NCB) in the late-1990s following the encouraging results achieved by conventional capital guaranteed funds launched by NCB. A joint effort between NCB and Deutsche Bank, supplemented by an active and continuous dialogue with Shariah advisors and legal counsel representing both NCB and Deutsche Bank, has led to the successful offering to retail investors in Saudi Arabia of the first Islamic capital protected fund. This was an impressive and unanticipated development because a fund that is the outcome of a lengthy (over six months from start to finish) and expensive process would usually, in the first instance at least, be offered only to institutional and high net worth investors, not to retail investors.

However, the fund appealed to investors who desired to benefit from any rise in the market while securing their principal from any downside. Evidence of the success of the fund included the high level of subscription in the first series (over US$275 million, which led NCB to issue a second series) and the ability of NCB to package the product for other banks in the Middle East by way of private label private placement arrangements.

This product is one example of a highly successful investment product developed and offered successfully by a leading Middle Eastern bank. Also, the involvement of Deutsche Bank serves to prove that financial institutions in the Middle East can benefit from collaboration with premier international financial institutions. Moreover, regional banks can benefit through entering into private-labelling arrangements that strengthen inter-regional ties and allow the financial institution that developed the product to capitalize on its investment in "research & development".

Unit linked products

The Islamic Takaful industry has come a long way since the Grand Council of Islamic Scholars in 1985 approved it as the Islamic alter-

SECTOR REPORT *(continued...)*

native to conventional insurance. Two primary issues that the Takaful industry currently faces are the unavailability of a product range to which a substantial portion of the Takaful contribution can be linked, and the need to develop Retakaful solutions to supplement the Takaful products.

Despite growth in the Takaful and Islamic investment funds industries, there is an immediate need to bridge the gap that exists between the two. A successful Islamic unit-linked product would be one that provides products with long-term fixed returns that can provide life insurance and pensions to Islamic investors. Bank Al-Jazira in Saudi Arabia, for instance, was one of the first banking institutions to develop a Takaful product with an embedded savings plan. The bank appears to have benefited from the availability of a family of Islamic funds which its investment department had already structured and successfully offered in the Saudi market.

Another pioneer, FWU AG, has adopted a different approach as, unlike the Bank Al-Jazira model, its target clients are bank distribution partners who have either developed or have access to a variety of investment funds to which the Takaful product can be linked. The development process, in both instances, involved the need to juggle contractual, regulatory and business considerations. In fact, in the FWU model, it was notable that the product specifications portion withstood most of the legal and regulatory requirements in the relevant jurisdictions, which can be attributed to the investment made by the company to develop a product that satisfied the requirements of the German and, more generally, European Union regulations.

However, the legal implications of using a bank distribution partner presented the need to draft and negotiate a detailed and comprehensive tripartite arrangement among the product developer (licensor), the local insurance company and the bank distribution partner setting out the rights and obligations of each.

Another recent development is the arrangement by FWU of a Retakaful structure whereby the reinsurance-type cover is provided by a top rated European insurance company. Until this innovation, such cover was structured as a conventional reinsurance cover (due to the unavailability of a comparable Islamic alternative) or was not available from top rated international reinsurance companies. This recent development would, among other things, enhance the protection afforded to the Takaful policyholder should the Takaful company run into financial difficulty.

The development of this contractual arrangement reflects the willingness of some of the international insurance companies to investigate and invest in developing Islamic alternatives to conventional products and underpins the need to reverse-engineer some of the positive aspects available in the conventional insurance industry of today to satisfy Takaful requirements.

European internal funds

A Takaful company or a successful non-European manager of Islamic funds can, subject to satisfying certain requirements, offer Islamic investors in Europe the option to invest in Shariah compliant investment plans, even if such plans are not registered in the EU, by developing investment schemes in the form of internal funds of a European asset management company.

In such cases, the investment fund can be embedded in the respective Takaful products offered by the Takaful company. Premium Select Lux SA, the asset-management arm of FWU, developed the first Islamic internal fund in 2002.

The development of an Islamic internal fund embedded in a Takaful product was made possible by PSL's commitment of time and resources, the existence of European regulations that permitted the creation of such internal funds, the willingness of the Luxembourg regulators to accommodate an Islamic internal fund (made easier by the fact that the documentation is similar to that used for conventional internal funds) and the encouragement of Shariah advisors who view Islamic internal funds as being a readily available mechanism through which Muslims in Europe would have access to Islamic investment products.

Listed equity certificates

Islamic equity certificates, which can be listed on a major European stock exchange and which mirror the performance of an underlying portfolio, would allow Islamic investors to participate in the gains or losses of the relevant portfolio; as well as Western and Middle Eastern fund managers to invest on behalf of their Islamic investors in a branded, transparent and regulated manner.

"One avenue where much work needs to be done involves ensuring that the latest Islamic products are made available to Muslims in non-Muslim jurisdictions"

The first of such certificates were "The Islamic Equity Builder Certificates" developed and promoted jointly between NCB and Deutsche Bank and listed on the Frankfurt stock exchange.

Deutsche Bank, also known for its XAVEX program through which assets are certificated and listed on major stock exchanges, entered into a detailed cooperation, product development and listing agreement with NCB pursuant to which four certificates were issued (three covering three separate international regions and the fourth with global coverage).

Under such detailed agreement, NCB provided Shariah know-how and Islamic equity screening criteria, while Deutsche Bank provided in-house quantitative stock selection strategies and assumed the role of market maker. The certificates were launched in early 2003 and successfully listed on the Frankfurt Stock Exchange with Deutsche Bank acting as the market maker. This model constitutes one of very few examples of a leading Middle Eastern financial institution being able to export financial services to regulated Western markets such as Europe through the utilization of its own Islamic "know-how" and track record and through partnering with a leading international financial institution.

In conclusion, the Islamic investment funds industry has come a long way in recent years. One avenue where much work needs to be done involves ensuring that the latest Islamic products are made available to Muslims in non-Muslim jurisdictions such as Europe and the US. This would allow such institutions to outgrow their traditional and limited regional role by "exporting" their financial and structural "know-how" of the Islamic banking sector.

Venturing into heavily regulated Western markets requires a considerable investment in product development and distribution arrange-

Sector Report *(continued…)*

ments. Most Islamic financial institutions have shied away from making sufficient resources available to facilitate such expansion. However, those who have committed, and are committed, resources towards such vibrant area stand to benefit the most as the above examples have illustrated.

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3. *For more information on the Bank Al-Jazira model, see: Dawood Yousef Taylor, At the Heart of the Matter: What is Mutual or Co-operative Islamic Insurance? Misconceptions abound at Both industry and Shariah-level; Islamic Banking and Finance (Issue 3).*

Note: The author is an associate with the Dubai office of Vinson & Elkins L.L.P. where he advises clients, among other things, on Shariah compliant investment and finance structures including private equity, hedge funds and securitization. Chris Richardson, an associate in the firm's Houston offices assisted in the preparation of this article.

MOVES & PROMOTIONS

CITIGROUP - Hong Kong

Mark Renton has been appointed Head of Investment Banking, Asia Pacific. Mr. Renton relocates from New York where he was head of the banks global energy, power and chemicals division. Mr. Renton replaces Gordon Paterson who will continue to play a major role in the groups Investment Banking division in New York.

BDO JAWAD HABIB - Bahrain

Carl Gordon has been promoted to Partner within the firm's Audit and Business Advisory division

ING –Asia

Grenville Thynne has been appointed the new Head of Corporate Finance. Mr. Thynne was previously the Head of Corporate Finance in Australia for the group.

AFFIN MERCHANT BANK - Malaysia

Datuk Dr. Sheikh Awab Sheikh Abod has been appointed President and Chief Executive Officer. He was previously the Deputy Chief Executive Officer at Malaysia International Merchant Bankers Bhd (MIMB), a subsidiary of EON Bank Group.

EVENTS DIARY

Workshop on Islamic Trading Contracts
Sime Bank, Malaysia
Wednesday 26th January 2005
Organised By: Islamic Banking & Finance Institute Malaysia

International Islamic Finance: An Indonesian Perspective
Grand Hyatt Hotel, Indonesia
Thursday 27th January 2005
Organised By: Lovells

Islamic Banking and Finance Asia Conference
Raffles The Plaza Hotel, Singapore
Monday 31st January – 1st February 2005
Organised By: Asia Business Forum

Annual Conference on Islamic Banking and Finance
Gulf International Convention and Exhibition Centre, Bahrain
Sunday 6th - 7th February 2005
Organised By: AAOIFI

4th Annual Islamic Finance Summit
London
Tuesday 22nd – 23rd February 2005
Organised By: Euromoney

Islamic Retail Banking
Hotel Nikko, Kuala Lumpur
Monday 4th – 5th April 2005
Organised By: Asia Business Forum

If you would like to place your event in this section, please fax us your event details at +603 2141 5033 or simply email info@IslamicFinanceNews.com.

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ISLAMIC LEAGUE TABLES

Islamic Finance News has teamed up with Dealogic to bring you up-to-date league tables every two weeks depicting the leading issuers and arrangers in the Global Islamic Debt Capital Markets.

TOP 20 ISSUERS OF ISLAMIC DEBT JULY 2004 - JANUARY 2005

	Issuer or Group	Amt US$ m	Iss.	%Share
1	Dubai Global Sukuk FZCO	1,000.00	1	21.72
2	Kapar Energy Ventures Bhd	895.26	1	19.45
3	Pakistan International Sukuk Co Ltd	600.00	1	13.03
4	Sarawak Corporate Sukuk Inc	350.00	1	7.60
5	SAJ Holdings Sdn Bhd	336.84	2	7.32
6	Saudi Hollandi Bank	186.66	1	4.06
7	Encorp Systembilt Sdn Bhd	179.82	1	3.91
8	Optimal Chemicals (Malaysia) Sdn Bhd	149.21	10	3.24
9	International Finance Corp - IFC	131.58	1	2.86
10	Stichting Sachsen-Anhalt Trust	120.39	1	2.62
11	Optimal Glycols (Malaysia) Sdn Bhd	119.21	10	2.59
12	Sarawak Specialist Hospital & Medical Centre Sdn Bhd	111.84	1	2.43
13	Mid Valley City Sdn Bhd	105.26	2	2.29
14	Standard Chartered Bank Malaysia Bhd	100.00	1	2.17
15	Petroliam Nasional Bhd - Petronas	65.79	5	1.43
16	Negeri Sembilan Cement Industries Sdn Bhd	52.63	1	1.14
17	Ace Polymers (M) Sdn Bhd	18.42	6	0.40
18	Royal Mint of Malaysia Sdn Bhd	14.47	1	0.31
19	PT Humpuss Intermoda Transportasi Tbk	13.18	1	0.29
20	PT Citra Sari Makmur	11.21	1	0.24
	Total of issues used in the table	**4,603.05**	**59**	**100.00**

ISLAMIC DEBT JULY 2004 - JANUARY 2005

	Manager or Group	Amt US$ m	Iss.	%Share
1	HSBC	866.23	28	18.82
2	Citigroup	753.73	3	16.37
3	RHB Capital Bhd	559.47	2	12.15
4	AmMerchant Bank Bhd	500.26	2	10.87
5	UBS	350.00	1	7.60
6	Dubai Islamic Bank	333.33	1	7.24
7	United Overseas Bank Ltd	285.08	3	6.19
8	Aseambankers Malaysia Bhd	279.39	27	6.07
9	Commerce International Merchant Bankers Bhd	178.07	3	3.87
10	Bank Islam Malaysia Bhd	112.28	2	2.44
	Total of issues used in the table	**4,603.05**	**59**	**100.00**

ISLAMIC DEBT BY COUNTRY JULY 2004 - JANUARY 2005

	Amt US$ m	Iss.	%Share
Malaysia	2,519.82	50	54.74
United Arab Emirates	1,000.00	1	21.72
Pakistan	600.00	1	13.03
Saudi Arabia	186.66	1	4.06
United States	131.58	1	2.86
Germany	120.39	1	2.62
Indonesia	44.61	4	0.97
Grand Total	**4,603.05**	**59**	**100.00**

ISLAMIC DEBT BY CURRENCY JULY 2004 - JANUARY 2005

	Amt US$ m	Iss.	%Share
Malaysian Ringgit	2,301.39	50	50.00
US Dollar	1,950.00	3	42.36
Saudi Arabian Riyal	186.66	1	4.06
Euro	120.39	1	2.62
Indonesian Rupiah	44.61	4	0.97
Grand Total	**4,603.05**	**59**	**100.00**

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