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Managing environments

For a seed to grow healthily into a plant, the right amount of soil, water and sun is needed at different parts of its growth process. Once it reaches a certain momentum, the plant's growth is sustained by its own structure to channel water where needed, to seek for minerals in the soil and to bend where the sun shines. The assumption is that the key ingredients are at an optimum — the soil is good, the water uncontaminated and the sun shines for a minimum duration.

This simplistic analogy can be applied to the global Islamic finance industry as its growth is reflected at different levels in different markets. In addition, different aspects and issues exist, mostly conflicting and unresolved. This affects the industry in various places and ensures the current dynamic and challenging growth.

For instance, it is important that Islamic financial institutions take steps to improve their corporate governance practices to strengthen the industry further, according to a report by PricewaterhouseCoopers Malaysia. Others believe that tax neutrality is extremely important in an Islamic finance environment as it makes Islamic financial products as cost-efficient as its conventional counterparts, based on a report by Arzim Associates Chartered Accountants.

When it comes to Islamic asset management, the biggest challenge is a perception barrier, something that it needs to be overcome before the industry can progress further, reports Mark Watts of the National Bank of Abu Dhabi.

Different markets are circumventing challenges in their own way. In our IFN reports we find that the Dubai International Financial Center (DIFC) announced changes to its fee structure to reduce cost of doing business on its premises; the Central Bank of Qatar has introduced new regulatory rules limiting the Shariah practices of conventional banks; India refuses to recognize Islamic banking but yet allows Islamic funds to be traded and listed on its stock exchange; and the GCC's Islamic finance industry is projected to achieve a growth of 15% to 20%, given that its ratio to conventional finance already gives it an advantage.

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India's market is further analyzed in a report by Dar Al Sharia legal and financial consultancy. Luxembourg is one of the largest non-Muslim Islamic finance hubs in the world and its potential role in combining Islamic finance and shipping is explored by Cedric Raths of Pandomus.

Saleem Ullah, director of Islamic banking in the State Bank of Pakistan, highlighted in Meet the Head, sees that the country's current growth momentum in Islamic finance can be sustained and will achieve the projected 15% share from the current 6%.

The final installment of Dr Hisham Jabr's article on Islamic mutual funds covering Shariah investment instruments and Islamic capital markets is featured, and this week's Termsheet details CJ Capital's US$37 million Sukuk Murabahah.

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MOVES

- **UBS** appoints **Alex Wilmot-Sitwell** as co-chairman and co-CEO for Asia Pacific
- **VTB Capital** appoints **Vladimir Androsik** as head of investment management
- **Morgan Stanley** names **Eric Grossman** as its global head of legal operations
- **Mashreqbank** appoints **Niranjan Mendonca** as the new head of retail banking
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- **Fitch Group** appoints **Keisuke Moriyama** as senior director and co-head of financial institutions in Tokyo
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- **Ajman Bank** appoints **Akram Khan** as head of corporate banking division
- **Morgan Stanley** private wealth management appoints **Pavlos Bailas** as head of Europe, Middle East and African region

AMERICAS

Search for ethical funds

US: Sharif el-Gamal, developer of the proposed Muslim community center and mosque near ground zero is considering Islamic financial instruments to finance the development cost.

Although the value and specific instruments are undecided, the project is estimated to cost US$140 million and Sharif el-Gamal plans to raise US$27 million from donations.

He believes that members of the proposed community center will pay an annual fee of US$2,700 per family and support the financial plan.

ASIA

Third Sukuk from MDV

MALAYSIA: Malaysia Debt Ventures (MDV) plans to issue RM500 million (US$162 million) worth of Islamic bonds in September or October 2011 to fund investments, said Md Zubir Ansori Yahaya, CEO of MDV.

This will be MDV's third issuance after it raised a similar amount in September this year and a maiden issue for RM1.5 billion (US$427 million) in 2008.

MDV, a subsidiary of the ministry of finance, was set to help finance companies in the information technology and bio-technology project sectors.

Sukuk raised below target

INDONESIA: Indonesia has raised a total of IDR382 billion (US$42.8 million) via a Sukuk auction on the 5th October 2010, below the targeted IDR1 trillion (US$111 million) to help fix its budget deficit.

The Islamic bond comes with maturities of five years to 20 years and coupons ranging from 8.8% to 10.25%.

Consent secured

MALAYSIA: The Indonesian authority has approved Malayan Banking (Maybank)'s decision to convert its unit Bank Maybank Indocorp into an Islamic bank, said Abdul Wahid Omar, president and CEO of Maybank. Abdul Wahid added that the bank would be renamed Maybank Syariah Indonesia.

"The move will enable Maybank to boost its Islamic banking assets based in Indonesia and seize a bigger market share in the country. It also fits in with the group's plan of becoming the largest Islamic bank in the ASEAN region by 2015," he stressed.

Capital raising a success

MALAYSIA: The proposed capital raising by Bank Islam Malaysia via the issuance of 540 million units of Islamic convertible redeemable non-cumulative preference shares (CRNCPS) has been fully subscribed.

BIMB Holdings has maintained its major shareholder position by holding 51% of the CRNCPS while Lembaga Tabung Haji's shares increased from 9% to 18.53%.

Dubai Financial Group, which did not take up an offer to buy Bank Islam Malaysia's Islamic preference shares, saw its stake being reduced to 30.5% from 40%.

Attracting West Asians

INDIA: Conventional banks in India should be allowed to open interest free banking windows to attract investments from countries in the West Asian region, said Muddassir Siddiqui, partner and head of Islamic finance, SNR Denton (Middle East).

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India needs to develop the appropriate regulatory framework to allow interest free banking operations, added Abdur Raqeeb, general secretary of the Indian Centre for Islamic Finance.

Investment surplus in the West Asian region which now stands at US$1.5 trillion is expected to reach US$9 trillion in 2020, according to McKinsey & Company.

Higher premium products

MALAYSIA: The local Islamic finance industry needs to develop other products and services besides Sukuk that could command greater premiums in the domestic and foreign markets, according to Ahmad Husni Mohamad Hanadzlah, second finance minister of Malaysia.

He added that the expansion of a Shariah compliant asset management industry will give impact and add value across the financial services sector, including the Takaful industry, private equity, mutual funds, private wealth management, trust and Waqf.

Notes to restructure debt

MALAYSIA: Senai Desaru Expressway (SDE) is planning to issue RM1.15 billion (US$370 million) Islamic medium term notes (IMTN) in November to restructure its existing Bai Bithaman Ajil Islamic debt securities, according to Mustaza Salim, CEO of SDE.

The new issue will include senior IMTN with maturity periods ranging from one year to 20.5 years and junior IMTN with maturity period from 21 years to 28 years.

EUROPE

IBB offers Ijarah facility

UK: The Islamic Bank of Britain (IBB) has collaborated with the Alliance of Mortgage Packagers and Distributors (APMD) to offer a Shariah compliant home purchase plan for APMD members.

IBB said the home purchase plan allows customers to purchase their home via Ijarah and Musharakah financing facilities. The rental rates begin at 3.99% with an arrangement fee of GBP299 (US$473).

BLME returns to profit

UK: Bank of London and The Middle East (BLME) has recorded a pre-tax profit of GBP3.6 million (US$5.7 million) for the first half of 2010, as compared to the loss of GBP9.8 million (US$15.5 million) in the same period last year.

In the first half of 2010, total operating income rose 9.1% to GBP19.2 million (US$30 million), while net fee income went up 171% to reach GBP598,752 (US$948,405).

BLME attributed the profit to the strong performance of the bank's markets division, continued top performance of the US Dollar Income Fund, cash recoveries from assets and strengthening of the corporate banking team.

Beneficial discussion

RUSSIA: The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) together with representatives from the ministry of finance, The Bank of Russia and Shura Council of Russian Muftis organized a meeting with the Russian Association of Experts in Islamic Finance.

Dr Mohamad Nedal Alchaar, secretary general of AAOIFI said the meeting was on the nature of the AAOIFI standards, steps to make them available to Russian financial institutions and various aspects of cooperation in the Middle East. He also stressed the importance of establishing a suitable regulatory environment to help promote the Islamic financial industry in Russia.

Gozde ups stake

TURKEY: Gozde Financial Services (Gozde) has purchased a 10.26% stake in Turkiye Finans Participation Bank (Turkiye Finans) for TRY216 million (US$148.45 million).

The purchase agreement increases Gozde's stake in Turkiye Finans from 3.44% to 13.69%.

GLOBAL

IFN Awards Poll 2010 results

GLOBAL: The Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) has been selected as the Most Outstanding Standard Setting Body in the Islamic Finance *news* (IFN) Awards Best Service Providers Poll 2010 released today.

AAOIFI beat stiff competition from the Islamic Financial Services Board and the International Islamic Financial Market in one of two new categories added this year. The other new category – the Best Interbroker for Islamic Transactions went to DDCAP.

This year, a total of 13 categories were contested with 12 companies claiming the awards. Dar Al Sharia came in as the big winner this year bagging two awards in the Best Shariah Advisory Firm and Best Islamic Consultancy Firm categories.

A total of 1,956 votes cast during the month-long poll in September. Participants were to only consider 2010 when casting their votes. All votes were screened and only those passing the strict due diligence process were counted. The full results are on page 16.

AAOIFI's new standards

GLOBAL: The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued three new Shariah standards — "Contemplation Option", "Defects Option" and "Honesty Option".

Dr Mohamad Nedal Alchaar, secretary general of AAOIFI said the standards were introduced to impose Shariah rules for the different investment, insurance and financial services and, provide interepretation for such rules.

Higher returns for Sukuk

GLOBAL: Based on the global financial recovery and increased confidence in the Persian Gulf issuers' ability to honor their obligations, Islamic bonds are predicted to post the highest gain during the fourth quarter of this year, according to HSBC/ NASDAQ Dubai US Dollar Sukuk Index.

This will be the highest gain reported since 2007.The index also reported that the investors received 5.1% and 4.9% return in the first and third quarter this year respectively.

Solid combination

GLOBAL: Law firms Sonnenschein Nath & Rosenthal and Denton Wild Sapte have merged to become SNR Denton.

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SNR Denton specializes in Islamic finance, energy, transport and infrastructure, financial institutions and funds, insurance, manufacturing, real estate and retail.

Proving its worth

GLOBAL: Private equity firms are challenged to demonstrate the value they bring to investing companies with the current challenging market conditions, according to Ashar Nazim, head of Islamic financial services at Ernst & Young.

"It all boils down to having specialist expertise. You cannot be a generalist anymore. Effective convergence of financial services and industry expertise will differentiate successful firms from others," he added.

Industry projected growth

GLOBAL: The Islamic finance industry estimated at US$1 trillion could double by 2020 through innovation, diversification and consolidation which will encourage sustainable growth patterns, according to Rasheed M Al Maraj, governor of the Central Bank of Bahrain.

However, Rasheed added that the Islamic finance industry can only achieve the predicted growth if it addresses fundamental issues, especially relating to its business models.

MIDDLE EAST

Preparing for the worst

UAE: Emaar Properties is expected to make provisions if Amlak Finance's condition worsens.

According to Emaar, this move could lead to write offs and a decrease in the value of its investments in the mortgage firm.

Emaar holds a 48% stake in Amlak.

Cross border Islamic fund

BAHRAIN: The Central Bank of Bahrain has approved the establishment and marketing of the Hyperion Australian Equity Islamic Fund in Bahrain, the first Shariah compliant offshore fund comprised of Australian stocks.

The fund is offered by Hyperion Fund Company and targeted at investors via local private banks and wealth management firms.

Hyperion Australian Equity Islamic Fund is based on aggressive capital appreciation, which seeks to deliver value to shareholders by investing in companies with appreciating share prices.

Codexa Capital is the consultant to Hyperion Asset Management for structuring and marketing the fund.

New rules for a better cause

QATAR: The Central Bank of Qatar has introduced two new regulations for conventional banks that will encourage the growth of Islamic banks in the country.

Under the new rules, conventional banks are not allowed to assign more than 10% of issued capital to Islamic banking operations and are forbidden from opening additional branches for Islamic banking.

The regulation also restricts the provision of Mudarabah and Musharakah financing facility to 5% of the conventional banks' operations.

(More in IFN Report on page 10)

Support for Islamic banking

SAUDI ARABIA: A group of Indian expatriates in Saudi Arabia has presented a memorandum to Vayalar Ravi, minister of overseas Indians' affairs to introduce Islamic banking and financial services in India.

They pointed out the importance of Islamic banking in bringing a large section of the excluded population into the Indian financial system.

The group also highlighted Islamic finance as a feasible alternative to the capitalist system.

Islamic equity fund

SAUDI ARABIA: Al Rajhi Capital has launched an open-ended Shariah compliant fund called Al Rajhi Saudi Equity Fund.

The fund is a specialized investment fund (SIF) which invests in Shariah compliant stocks in Saudi Arabia. It is targeted at professional and institutional investors across Europe and the Middle East.

The new fund will be offered to investors through Credit Suisse's Expert Investor SICAV-SIF and monitored by Luxembourg's regulatory authority, the Commission de Surveillance du Secteur Financier.

Dubai World gives assurance

UAE: Dubai World has assured its creditors that it could raise US$19.4 billion via sale of its assets including DP World and Jebel Ali Free Zone, if they agree on a restructuring period of up to eight years, according to Saudi American Bank Group (Samba).

However, Samba said it is not possible for the conglomerate to reach the targeted amount, as it could only obtain US$10.4 billion if it was forced to sell at current prices.

Cutting down on capital

KUWAIT: International Investment Group (IIG)'s shareholders have agreed to reduce the company's capital by more than half to KWD20.2 million (US$70.93 million) to cover its losses for 2009.

According to IIG, accumulated losses as of the end of last year were US$142.9 million as a result of the financial crisis.The shareholders have also approved a decision not to pay dividends for the same period.

Keeping its word

UAE: Islamic mortgage provider Tamweel will pay off the second tranche of AED230 million (US$62.6 million) syndicated loan that matures on the 10th October.

The firm paid the first tranche of the syndicated loan in April 2009 and the third tranche payment is scheduled for the 10th April 2011.

EIB, Dubai Bank plan merge

UAE: Emirates Islamic Bank (EIB) and Dubai Bank are discussing plans to merge and establish a new Islamic bank.

The two banks also plan to include Islamic mortgage provider Amlak Finance into the new banking entity.

Financing for airport

UAE: Dubai Sharjah Airport Authority has signed a 10-year Ijarah financing deal with Sharjah Islamic Bank for AED500 million (US$136.1 million).

The financing will be allocated for Dubai Sharjah Airport Authority's new runway project as part of it's expansion and development plans.

IDB ups Sukuk amount

SAUDI ARABIA: The Islamic Development Bank (IDB) has updated its Sukuk trust certificate issuance program by increasing the ceiling from US$1.5 billion to US$3.5 billion.

The Sukuk will be used to finance a planned growth in IDB's operations. CIMB, Citigroup, HSBC and Standard Chartered Bank were appointed as lead managers of its US$3.5 billion Sukuk.

IDB will also carry out a roadshow to meet investors in Riyadh, Kuala Lumpur, Singapore, Dubai, Abu Dhabi, Zurich and London before the launch of the US dollar-denominated Islamic bond.

Nakheel pays creditors

UAE: Nakheel has settled payment worth AED3.4 billion (US$925.6 million) in cash to its creditors and has appointed a consultant to assess claims.

Nakheel started paying trade creditors whom it owed AED500,000 (US$136,124) or less in March and initiated payments of AED4 billion (US$1.09 billion) to its other creditors on the 30th June 2010.

According to Chris O'Donnell, CEO of Nakheel, although the company has no plans to launch real estate investment trusts (REITS), it will be looking at a number of fundraising options and is not ruling out REITS.

Banks extend financing

UAE: Abu Dhabi's Emirates Steel Industries has secured a US$1.1 billion seven-year financing deal with Al Khalij Commercial Bank and its subsidiary, Al Khaliji France.

Islamic Finance *news* reported in August that ESI secured a US$733 million facility from seven conventional banks and a US$367 million financing from two Islamic banks, Al Hilal Bank and Abu Dhabi Islamic Bank to fund the expansion of its production facility and refinance existing debts.

Yes to Sukuk

JORDAN: The Jordanian cabinet has approved Al Rajhi Group's request to issue Sukuk for the expansion of the group's investments in the kingdom.

However, the cabinet has ordered Al Rajhi to coordinate this move with the Iftaa

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department and sell the Sukuk to local banks.

Previously, Al Rajhi appealed to the Jordanian government to implement procedures for issuing Sukuk in the kingdom to finance the establishment of two factories for glass and steel manufacturing.

US$750 million first Sukuk

QATAR: Qatar Islamic Bank (QIB) has successfully placed US$750 million for its first Sukuk issuance. It is also the first international Sukuk transaction from a Qatari financial institution.

According to QIB, investors' demand for the Sukuk reached US$6 billion. The Islamic bond has a maturity of five years and will pay a fixed rate coupon of 3.856% per annum.

QIB adds that the Sukuk transaction will help to boost the international Sukuk market in 2010 for non-sovereign investment grade issuers.

Jabal Omar secures financing

SAUDI ARABIA: Jabal Omar Development Company has secured a SAR1.35 billion (US$360 million) bridge financing facility from five local banks to finance its property project in Mecca.

The banks are Al Rajhi Bank, National Commercial Bank, Bank AlJazira, The Saudi British Bank and Saudi Hollandi Bank.

According to Jabal Omar, the facility is the first step towards arranging a Shariah compliant syndicated finance that could reach SAR5 billion (US$1.3 billion) in the coming months.

Tapping different markets

UAE: National Bonds Corporation (NBC) expects to secure a 30% growth for its assets, via savings plans for women and retirement funds for foreign workers in the UAE, said Mohammed Qasim Al Ali, CEO of NBC.

Mohammed Qasim added these segments were typically ignored by commercial banks in the UAE.

He explained these plans were made based on the fact that there is a big gap in savings in the UAE.

ASIA

Family Takaful JV

MALAYSIA: ING Insurance and Public Bank has planned to set up a Family Takaful joint venture (JV) company in 2011, said Anusha Thavarajah, chief financial officer and chief risk officer at ING Insurance. In the JV according to Thavarajah, Public Bank will hold a 60% stake, while the remaining 40% will belong to ING Insurance.

Ways to a broader market

MALAYSIA: MAA Takaful signed an agreement with Life Insurance and Market Research Association International (LIMRA) and Centre for Research and Training (CERT) to strengthen its manpower and reach a broader market segment.

Under the agreement, LIMRA and CERT will develop and implement a Shariah compliant leadership development program to strengthen MAA Takaful's distribution network.

BancaTakaful distributor deal

PAKISTAN: Pak-Qatar Family Takaful and FWU have signed an agreement with Dawood Islamic Bank that will enable the bank to distribute bancaTakaful products across its branch network. These bancaTakaful products will provide the bank's customers with long term savings plans and financial protection to families.

MIDDLE EAST

New Takaful firm in 2011

UAE: Abu Dhabi National Insurance Company (ADNIC) is planning to enter the local Takaful market with the launch of a Takaful firm in early 2011, in partnership with National Bank of Abu Dhabi, Abu Dhabi National Energy Company and Aldar Properties.

Walid Sidani, CEO of ADNIC attributed this decision to the low insurance penetration and demand for Takaful in the UAE.

Walid added that ADNIC is also looking to form joint ventures with foreign partners to diversify from investments and focus on its core business. JVs will broaden its product and service offering, especially in Dubai where a new medical health law in 2011 will make medical insurance mandatory for employees.

ASIA

Positive achievement

MALAYSIA: RAM Rating Services has reaffirmed United Overseas Bank (UOB)'s long-and short-term financial institution ratings at 'AA1' and 'P1'. The move is based on UOB's improving asset quality.

Borcos on observation

MALAYSIA: RAM Rating Services has placed the 'A1'/'P1' ratings of Syarikat Borcos Shipping's (Borcos) RM160 million (US$52 million) Sukuk Ijarah medium term notes on Rating Watch, with a negative outlook.

Borcos is a provider of marine support services to the offshore oil and gas industry.

The move is based on the decline in daily charter rates and low utilization of Borcos' offshore support vessels.

Important role

MALAYSIA: RAM Rating Services has reaffirmed the 'AAA' rating of Syarikat SESCO's RM605 million (US$171 million) Bai Bithaman Ajil Islamic debt securities.

The long term rating has a stable outlook. The rating is attributed to SESCO's importance as Sarawak's sole electricity provider.

MIDDLE EAST

Tamweel positive outlook

UAE: Fitch Ratings has revised the Rating Watch on Tamweel's long term issuer default ratings (IDR), short term IDR, support rating and support rating floor to positive from evolving. This is following Dubai Islamic Bank's move to take up 57.33% stake in Tamweel which attributes to the removal of uncertainty over Tamweel's future ownership and business mode.

Good support

UAE: Capital Intelligence has affirmed Rakbank's foreign currency ratings at 'A-' long term and 'A2' short term while the financial strength rating is maintained at 'BBB+'. The affirmation is based on the bank's solid financial fundamentals and support from the UAE authorities.

Revised regulations to develop Islamic banking

In August this year, the Central Bank of Qatar revised the rules on Islamic bank financing giving fully fledged Islamic banks a competitive edge over Shariah compliant banking windows by conventional banks.The regulatory changes limit conventional banks from assigning more than 10% of issued share capital to Shariah compliant banking businesses, and will require them to maintain net liabilities at less than 15%.

The central bank also decided to discontinue any future issuances of Islamic banking licences. The regulations also stipulate that Mudarabah and Musharakah operations must be limited to 5% of total Shariah compliant functions of conventional banks. All banks are given until the end of August 2011 to comply with these revised regulations.

Louis Scotto, head of retail banking at Doha Bank believes that the revised regulations are disadvantageous for conventional banking. He believes that the new regulations will wind-up the bank's Islamic banking operations and reduce competitiveness of Shariah compliant banking windows in conventional banks. However, Musadag El Malik, general manager of Qatar National Bank told Islamic Finance *news* that the revised regulations are part of an ongoing standardizing program of the central bank which will have a positive impact on Islamic banking.

Abdul Latif Al Meer, head of business group at Qatar Islamic Bank (QIB) told Islamic Finance *news* that the central bank's revisions will boost the Islamic banking industry in Qatar. The Islamic banking industry in Qatar has a 20% market share in assets, which was estimated at QAR79.9 billion (US$22 billion) in December 2009. QIB is the frontrunner among Islamic banks in Qatar — it holds a 50% market share in the aggregated assets of Shariah compliant banking in the country. From a national perspective, QIB holds an estimated 9.72% share in assets of the Qatari banking industry, and a 65.13% share in local investments of the Islamic banks.

Masraf Al Rayan (MAR) is another Islamic bank in Qatar, which announced a QAR605 million (US$166 million) net profit for the first half of this year, recording a 55.5% net growth in comparison with the same period in 2009. The total assets of MAR increased by 28.6% from QAR22.6 million (US$6.2 million) to QAR29 million (US$7.96 million) and the customer deposits reached QAR22 million (US$6 million) compared to QAR16.9 million (US$4.6 million) recording a 30% growth first half of this year.

Fawzi Siam, senior manager Shariah compliance at MAR told Islamic Finance *news* that the central bank revisions will control the Islamic banking industry expansion in a healthy manner. He believes that Basel II compliance and Shariah networking with financial institutions such as the stock market will be met easily with the regulatory revisions for Islamic banking. With Qatar bidding for the World Cup in 2022, Fawzi believes the Islamic banking industry will be the key financier for the infrastructure development.

Mohammed Ghiyath Sheikhah, vice president of Qatar International Islamic Bank (QIIB) told Islamic Finance *news* that the revised regulations are promising for Shariah compliant banking development. During the first half of this year, QIIB posted a net profit of QAR272 million (US$74.7 million), which is an increase of 6.7% from QAR255 million (US$70 million) from the corresponding period in 2009. At the end of first half of this year, QIIB's total assets stood at QAR18.4 billion (US$5 billion) compared with QAR16.6 billion (US$4.56 billion) reported in the first half of 2009, an increase of 11%.

Efforts to attract new business

The Dubai International Financial Center (DIFC) last week announced a series of changes to the fee structure of its registrar of companies, effectively reducing the cost of doing business on its premises. Although the complete list of changes is yet to be published by DIFC, Islamic Finance *news* learned that fees were removed in 61 categories, reduced in 10 categories and increased in 12 categories. However, fees in 46 categories were not amended and are expected to remain at the same level.

Abdulla Al Awar, CEO of DIFC Authority said that these amendments will help new clients to enhance their businesses. These changes include amendments to the company's regulations fees covering retail and non-retail business establishments, limited liability partnership regulations, general and limited partnership regulations, and special purpose company regulations. The amendments will be part of the new fee structure for companies applying to do business with DIFC from the 5th September, and will not apply to existing companies already registered with the financial centre.

DIFC in an official response to Islamic Finance *news* stated that an extensive analysis and benchmarking of the cost of doing business was conducted as a part of enhancing client services to encourage its future growth and expansion. The costs of doing business analyzed include registration fees, office space rent, vehicle parking fees, and other related costs. Although the changes came into affect on the 5th September, DIFC will only make public the details of the changes at the end of October. During the financial crisis which reduced Dubai's economy by 2.5% in 2009, DIFC cut down a significant number of employees, according to a senior manager from Ernst and Young (Dubai).

Although efforts were taken to keep the business afloat during the economic recession, DIFC Investments which owns assets in the state owned tax-free business park reported a net loss of US$562.1 million. Additionally, a high profile official attached to DIFC was taken into custody for fraud related charges.

DIFC has been instrumental in registering over 973 companies since its inception in 2004. However, the global and regional financial crisis has brought down the overall number of active registered companies to 745 in August this year. The DIFC community now comprises of 297 regulated and 374 non-regulated companies, and 74 retailers. This list of active registered companies includes 20 of the world's leading banks — Eight of the world's largest asset management institutions and four of the largest insurers have established their presence at DIFC.

A high growth prediction

The Islamic banking sector in the GCC is predicted to maintain an annual growth rate between 15% to 20% provided four main factors remains favorable in the region, according to Kuwait Finance House (KFH). These key deciding factors include a robust regulatory framework and stable banking system; increase in the GDP; government development plans continue to drive growth rates and add momentum representing increased demand; and further expansion of businesses of the member countries.

The GCC was established in 1981 with six member countries — Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. Among

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these members, Kuwait has the largest Islamic banking market share reaching 34.3% of the country's total banking assets followed by Qatar (19.3%), Saudi Arabia (15.9%), the UAE (14%), and Bahrain (10.9%).

Rafe Haneef, managing director of global markets of HSBC Amanah told Islamic Finance *news* that KFH's Islamic banking growth prediction is realistic for the GCC. He believes that other Muslim countries in the Middle East will also improve in Islamic banking during the next few years as they maintain a 10% to 15% annual regional growth.

According to KFH, the GDP per capita at US$27,937 in the GCC coupled with a young population will help to stimulate consumer spending and investments. Some 30% of the population in the GCC falls under 15 years of age while 66.7% is between 15 to 64 years of age. These socio economical factors will be the next launch pad for the Islamic banks in the GCC.

Mahin Dissanayake, associate director for Middle East financial institutions of Fitch Ratings (Dubai) told Islamic Finance *news* that the Shariah compliant banking industry was improving considerably fast till 2009. He believes, regardless of the financial crisis in Dubai, that Islamic banking will continue to improve in the Middle East propelled by better Shariah compliant products and expansion programs.

The GCC is the center for many of the world's leading Islamic banks including Al Rajhi Bank in Saudi Arabia and KFH in Kuwait with total assets exceeding US$46 billion and US$40 billion respectively. Riding the growth wave, most conventional banks have opened Shariah compliant banking windows in the form of subsidiaries. Some banks including the Dubai Bank in UAE and the Saudi Bank in Bahrain have already converted into Islamic banking. There are 22 Islamic banks in the GCC holding more than US$400 billion worth of assets.

However, Salman Haider Khan, head of Shariah at Abu Dhabi Islamic Bank told Islamic Finance *news* that with regards to this projected growth rate of Islamic banking assets in the GCC, the reference time period is crucial. He believes that if it is referring to a one-year period, the growth rate is "much too optimistic", especially in the current financial scenario and if the prediction refers to the next three years or more, the GCC could likely achieve it.

He also mentioned that, it is easier for Shariah compliant assets to achieve relatively high growth rates since the starting position or base is much smaller to begin with.

Legal barriers hinder Islamic banking in India

Last month the Indian government informed the Kerala High Court that Islamic banking is not viable in the republic and will not amend the Banking Regulation Act of 1949 to recognize Shariah compliant banking. The government's decision on the matter stopped all financial institutions as well as Islamic finance activists in India from moving forward to establish Shariah compliant banks or windows.

MM Dawala, under secretary of the government's ministry of finance filed the government's position in response to a petition by RV Babu of Hindu Aikya Vedi, a group of activists in Kerala. Dawala stated that banking regulations must be adhered to establish financial institutions. In the absence of legal recognition for Shariah compliant financial institutions, the government encourages Islamic banks to obtain non-banking licences.

India's banking regulations state that all non-banking license holders are subjected to a mandatory minimum interest of 4% for all deposits while commercial banks are subjected to a minimum interest rate of 3.5% payable to respective depositors. With this interest element, both conventional and non-banking institutions will clash with Shariah principles.

The Indian banking industry is governed by the Reserve Bank of India (RBI) in line with the Banking Regulation Act of 1949, which has a limited scope in defining the term 'banking'. As defined in the section 5 (b) of this Act, 'banking' is the accepting of public money for the purpose of lending or investment which are repayable on demand or otherwise, and for the purpose of withdrawal by cheque, draft or order. However, Shariah compliant financial institutions accept deposits, which will be used for equity and trade financing, rather than general lending as defined in the abovementioned section 5 (b) of the Act.

The Act also prohibits active trading, purchase and resale of investments, direct or indirect deal in buying, selling or bartering of goods. These prohibitions also prevent any bank in India from undertaking Murabahah and Ijarah transactions.

Ali Shervani, director of Islamic finance at Miftah Advisory India, told Islamic Finance *news* that the government is not convinced of the necessity to liberalize the banking sector, which will approve the establishment of Shariah compliant banks and windows. The government is waiting for a critical mass to build before issuing Islamic banking licences, added Ali. While India is estimated to have 175 million Muslims of a total of 1.2 billion population, Ali believes that more than 50% of the country's Muslims are not using the banking system.

However, Syed Dawood Mohideen who is the organizer of the public formation to establish an Islamic bank in India, told Islamic Finance *news* that the government is under serious pressure from both local and international institutions to establish Islamic banks. Syed Dawood is waiting for the final order from the Kerala High Court and believes that India should consider the potential of Islamic banking and finance to issue licences.

Pursuant to a sanction accorded by the Kerala provincial government, Kerala State Industrial Development Corporation in partnership with a few private firms, sought to set up an Islamic financial institution. A petitioner, Subrahmanium Swamy filed for a writ with Kerala High Court seeking a stay order on the incorporation of such company or business venture that impleaded the RBI. The principle argument of this petition was that according to the constitution of India, neither the central government nor any state government can be involved in any establishment or work which will support a group of people professing particular religion.

A study focusing on annual foreign remittances from the Middle East to the state of Kerala sent by foreign workers exceeds US$2.5 billion. A majority of these funds lay idle in Indian bank accounts or get invested in real estate or gold, according to the 2006 Sachar Committee Report. However, H Jayesh, the founder partner of Mumbai based law firm Juris Corp, told Islamic Finance *news* that the decision of the Kerala High Court is not binding on the entire country, but may have some persuasive value.

Although Islamic banking is not approved in India, the government has allowed the trading and listing of established Islamic funds.

Islamic Finance news Awards

Best Service Providers Poll 2010

The Islamic Finance *news* (IFN) Awards Polls are the most transparent, definitive and competitive awards in the Islamic finance industry.

Launched in 2005, the Islamic Finance *news* Best Islamic Banks Poll grew rapidly to become widely recognized as the one to win. Each year new categories were added reflecting the industry's growth. By 2009, the poll recognized two very distinctive groups; the banks and the service providers. Therefore, we took the decision earlier this year to separate the two categories, allowing each to revel in their own glory.

During the month of September we polled our global readership for the 2010 Islamic Finance *news* Best Service Providers Poll. 13 categories were contested and a total of 1,956 votes cast. Following due diligence 450 votes were discarded leaving 1,506 votes counting towards the final results.

The Islamic Finance *news Best Islamic Banks Poll will again be contested during December with the results being announced in the first issue of the newsletter in 2011.*

Islamic Finance *news* is the industry's leading financial markets focused e-newsletter. The Islamic Finance *news* Best Service Providers Poll recognizes the best supporting providers to the Islamic financial services industry as voted by our readers. Those polled include; finance institutions, issuers, investors and government bodies from around the world.

In addition to the 11 previously contested categories, two new classes were added this year. These were 'Most Outstanding Standard Setting Body' and 'Best Interbroker for Islamic Transactions'.

The Winners:

The **Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)** claimed the inaugural Most Outstanding Standard Setting Body, beating stiff competition from the Islamic Financial Services Board, and a strong showing from the International Islamic Financial Market.

In the other new category this year, **DDCAP** won the Best Interbroker for Islamic Transactions, beating a host of others quite comfortably.

Norton Rose emerged on top again to claim the Best Law Firm in Islamic Finance category by the narrowest of margins, beating its closest rival, Clifford Chance and the newly established Islamic finance team at Latham & Watkins who advised on the much respected Dar Al-Arkan Sukuk earlier this year.

Fitch Ratings, a first time winner, has won in the Best Islamic Ratings Agency category, while **Takaful Ikhlas** holds strong as the Best Takaful Provider for the third year in succession.

Retaining their number one status again for 2010 were; **CIMB Islamic** as the Best Islamic Fund Manager; **Dow Jones Islamic** as the Best Islamic Index Provider and **Path Solutions** as the Best Islamic Technology Provider.

In the Best Islamic Wealth Management Provider category, **HSBC Amanah** swept aside the rest of the pack again to reclaim their crown.

Dar Al Sharia is the big winner this year, bagging two awards in the Best Shariah Advisory Firm and Best Islamic Consultancy Firm categories, following their first accolade in 2009 in the advisory category.

In a relatively new category for 2010, **Munich Re** was recognized as the Best re-Takaful Provider for 2010. In previous years Takaful and re-Takaful had been contested as a single category.

In the category for Best Islamic Research Firm, the accolade goes to **International Shariah Research Academy (ISRA)** for the first time. Not only have they published a wealth of short and long term research papers, journals and books in the areas of Shariah and Islamic finance but they also boast one of the largest repositories of knowledge on Shariah views or fatwas.

Winners will receive the awards during two gala awards ceremonies taking place in early 2011. The first will take place in the evening of the 24th February in Malaysia, followed by Dubai on the 2nd March.

Methodology: Thirteen categories were contested in the 2010 polls, two more than the previous year. Participants were requested to take only 2010 into consideration when casting their votes. All votes were screened and only those passing the strict due diligence process were counted. Voters could not vote for themselves or associated organizations and could only vote once. All votes were scrutinized and validated before being recognized.

A total of 1,956 votes were cast during September 2010. Of these, 450 were disqualified due to irregularities discovered during the due diligence process. Therefore, 1,506 votes counted towards the 2010 results.

IFN AWARDS BEST SERVICE PROVIDERS 2010	
Most Outstanding Standard Setting Body	Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)
Best Islamic Consultancy Firm	Dar Al Sharia
Best Islamic Fund Manager	CIMB Islamic
Best Islamic Wealth Management Provider	HSBC Amanah
Best Takaful Provider	Takaful Ikhlas
Best ReTakaful Provider	Munich Re
Best Islamic Index Provider	Dow Jones Islamic
Best Interbroker for Islamic Transactions	DDCAP
Best Islamic Ratings Agency	Fitch Ratings
Best Islamic Research Firm	International Shariah Research Academy (ISRA)
Best Law Firm in Islamic Finance	Norton Rose
Best Shariah Advisory Firm	Dar Al Sharia
Best Islamic Technology Provider	Path Solutions

Malaysia: The Tax Haven for Islamic Finance

By Muhammad Arzim Naim

The international tax landscape has rapidly changed in the recent decade. The tax regime of a country has long been seen as an effective fiscal tool in managing domestic policy. It also can be manipulated to encourage flows of capital into the country. From investors' perspectives, tax is always deemed as a hidden cost in any funding structure.

Any potential tax inefficiencies will result into undesirable tax liabilities which will then be translated in the financing structure. Therefore, investors will always look for tax advantages beside stable environment and sustainable business structures. Any tax incentives are very much welcomed by investors.

The recent development in the international tax planning has seen the resurgence of tax haven to encourage inflows of foreign investments or capital. Even the Organization for Economic Cooperation and Development (OECD) plays an active role in encouraging its members to provide some form of tax heaven in every member's country.

> "Countries such as South Africa, Kenya, Nigeria, Indonesia and Hong Kong are amending their tax laws with a view of taxing the Islamic financial transactions on an equal footing as conventional finance"

On the Islamic finance context, whether the changes in the individual countries' tax regime will have a significant effect to the cross-border international Islamic finance transactions, we have yet to see the results. An often overlooked bilateral tax treaty between countries may be a good starting point for motivated countries to try to integrate Islamic finance systems with their respective trading countries.

Recently, the tax neutrality is becoming the buzz word in lieu of facilitating the Islamic financial transactions. The tax neutrality is a form of tax incentives whereby a relief is given to the tax charges that was supposed to be imposed onto the Islamic financial transactions. Tax neutrality is considered utmost important in Islamic finance environment because this will make Islamic financial products as cost-efficient as its conventional counterparts.

While there are numerous types of Islamic financial instruments available, there are underlying principles shared by these instruments. Besides the prohibition of earning/charging of interest in the financial transactions, the integral part of Islamic finance is the requirement to have an al-Bay or trade embedded in the financial transactions which will then be translated into the form of profits and losses sharing principles with implied acceptance of underlying risks by the parties involved.

It is not uncommon in the Islamic finance environments to have buying and selling transactions for more than once as the steps in issuing the Islamic financial instruments such as Sukuk or any working capital financing by the Islamic banks.

This selling and buying of assets will invoke tax for the transactions. For example, in the application of Diminishing Musharakah or Murabahah, there shall be multiple stamp duty land tax to be imposed for every buying and selling transaction in Malaysian jurisdictions. This will directly increase the costs to the participants in Islamic financial transactions. By comparison, this will make Islamic finance less attractive as compared to the conventional counterparts. Indeed, to have a tax neutrality in the issuance of Islamic financial instruments is very much encouraged in order to solve the tax intricacies.

To quote Yahia Abdul-Rahman, founder of LARIBA house of financing in Pasadena, California, where he claimed in his book 'The Art of Islamic Banking and Finance: Tools and Techniques for Community-Based Banking, 2010' that the tax imposed from the buying and selling of the underlying assets can be huge and without the application of the tax neutrality, Islamic financing will always be costly compared to conventional finance.

The growing interest in Islamic finance by the European countries can be seen from the introduction of tax-friendly law to accommodate the issuance of Islamic financial instruments in the country. The UK has long introduced tax neutrality to facilitate the issuance of Sukuk and other Islamic banking products. The UK tax law provides a relief on the stamp duty land tax for the acquisition of real estate under Diminishing Musharakah or Murabahah arrangements.

The relief is also extended to partnerships and also companies. The step was followed by French and Luxembourg where both governments have overhauled its tax laws to facilitate Islamic financial transactions such as Murabahah financing that is primarily used in the working capital financing plus Sukuk issuance. Ireland has followed suit under its Finance Bill 2010, which has started in January 2010. Ireland, like other EU countries, is warming to the Islamic finance and indeed, becoming rivals to EU countries. The changes in their respective tax legislations may be seen as a signal to other countries of their intention to become the Islamic financial hub of European continents.

Notwithstanding that, other countries such as South Africa, Kenya, Nigeria, Indonesia and Hong Kong are amending their tax laws with a view of taxing the Islamic financial transactions on an equal footing as conventional finance plus granting incentives in order to facilitate Islamic financial products in their respective jurisdictions.

Malaysia is seen to have an edge to be the Islamic financial hub in Southeast Asia. Malaysia has spearheaded itself having an establishment of Islamic Financial Services Board (IFSB) and Malaysia International Islamic Financial Centre (MIFC) besides leading in the Islamic banking arena for more than 20 years.

Malaysia has also anticipated the problem of shortage of talent in this arena by way of establishing the International Centre for Education in

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Malaysia: The Tax Haven for Islamic Finance (continued)

Islamic Finance (INCEIF) to produce the necessary talent. In addition, the International Shariah Research Academy for Islamic Finance (ISRA), the research entity of the central bank of Malaysia, Bank Negara was established with a mandate to promote applied research in the area of Shariah and Islamic finance.

The fact that Malaysia was one of the first countries in the region to introduce a framework and parallel regulatory system for Islamic finance has proved to the world its competencies by introducing various Islamic financial products for banking, capital market and insurance/Takaful sectors respectively.

Islamic finance tax incentives: The Malaysian experience

1. Profits, rebates and withholding tax matters

Malaysia has always been in the forefront in developing and expanding the infrastructure to support the development of Islamic finance. One of the ways is by providing incentives in this area. Because the main focus is to keep Islamic financing as attractive as conventional financing. It is crucial to examine the tax implications to give Islamic finance an equal footing to compete with the long established conventional finance at the level playing field.

The Income Tax Act (1967) is considered the main legislation that governs the taxation matters in Malaysia besides the Stamp Act (1949). The Income Tax Act (ITA) prescribes the taxability of income and deductibility of expenses. The application of tax in Islamic finance environments can be categorized into two categories: (i) individual basis, and (ii) corporate basis.

First, in the context of Islamic finance, the main concern is the treatment of profit associated with Islamic financial transactions since interest is not allowed under Shariah principles. ITA has made certain provisions on this matter on the Section 2(7) where:

> "any reference in this Act to interest shall apply, mutatis mutandis, to gains and profits received and expenses incurred, in lieu of interest, in transactions conducted in accordance with the Shariah".

This means the treatment of profits will be similar to that of interest for tax purposes. Thus, all other rules relating to interest such as withholding tax on interest, interest exemption and interest restriction rules will also apply to profits.

Profits received will always be taxed the same as interest income. However, the profits are paid in the course of the business. Then, the profits become tax deductible if the funding received associated to the profits paid is used to generate business income or to purchase assets to generate income. For example, given a scenario where depositors deposit some money in the Islamic banks. Two schemes which are normally used by Islamic banks in Malaysia are the Al-Wadiah yad Dhamanah (safekeeping with guarantee) or Al-Mudharabah (profit sharing) investment account. The former is a savings account of conventional banking alike while the latter is a fixed deposit account of conventional banking alike. For Al-Wadiah yad Dhamanah, the return to the depositors is in the form of Hibah or gift, up to the bank's discretion.

On the other hand, the Al-Mudharabah investment account with varying investment periods would share the agreed varying proportion of profits (depending on the tenure of investments) with the Rab al maal or the investment account holder according to the profit distribution ratio.

On individual perspectives, the Hibah earned from the placing of deposits on Al-Wadiah yad Dhamanah account is exempted from tax up to the equivalent of a deposit of RM100,000 (US$32,000) as per para 2(b) of Income Tax (Exemption) (No 13) Order 1996. However, the Hibah earned associated to deposits placed over the ceiling limit (RM100,000) is liable to 5% tax by virtue of Part VI of Schedule I of the Act. The tax must be deducted at source as per 109C of the Act. Any profits earned from the placing of deposits in the Al-Mudharabah investment account is fully exempt as per para 2(b) of Income Tax (Exemption) (No 13) Order 1996 if it is for more a period of twelve months or more. The share of Hibah or profits paid by the Islamic banks to the depositors for either Al-Wadiah yad Dhamanah account or Al-Mudharabah investment account will be an allowable expense in arriving at the bank's adjusted income or loss.

Generally, for Malaysian tax residents, any interest or profits received from the financial institutions will be subjected to tax. However, special incentives are given to the Malaysian individuals, unit trust or close-end funds to be exempted from income tax if the profits received are derived from the Sukuk approved by Securities Commission of Malaysia or from the selected Islamic bonds issued by Bank Negara.

On the other hand, according to Paragraph 33, Schedule 6 of ITA, any payment of interest to the foreign investors/non-residents by the financial institutions, securities or bonds guaranteed by the government is generally exempted from withholding tax.

This exemption has been extended to cover the profits payments from the Islamic financial institutions and Islamic securities to foreign investors/non-residents.

ITA has also provide deductions of rebate for any obligatory religious payment such as Zakat (Islamic tax) or Fitrah as per ITA Section 6A(3):

"A rebate shall be granted for a YA (Year of Assessment) for any zakat, fitrah or any other Islamic religious due payment of which is obligatory and which are paid in the basis year for that YA to, and evidenced by a receipt issued by, an appropriate religious authority established under any written law".

The Muslims regard Zakat and Fitrah as part of religious obligations. The normal calculation of Zakat is 2.5% and the Zakat is based on their wealth and income. The ITA allows payment of Zakat and Fitrah by the resident to be set off against the tax payable in the form of rebate. However, any excess of rebate over tax payable cannot be carried forward. Starting from YA 2005, companies that pay corporation zakat are allowed to deduct against their total aggregate income with limit up to 2.5% of their aggregate income.

However, the rebate from Zakat and Fitrah shall only be granted to resident individual and companies but not available for Islamic financial institutions such as Islamic banks or Takaful companies.

2. Tax neutrality

This section can be taken specifically for the subject of the Islamic private debt securities and the Sukuk issuance. As mentioned above, Islamic financing products are normally requiring more steps such as

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Malaysia: The Tax Haven for Islamic Finance (continued)

buying and selling or leases of the underlying assets. Thus, the tax implication will be more intricacies without the exemptions from the Act.

The reality of Islamic financing requires the assets transfer for more than once. Thus, the ITA Section 2(8) allows the underlying sale of assets or leases to be ignored for tax purposes so long as the transferring of assets is to meet the Shariah requirements. The following is the provision contain in the Section 2(8) of ITA:

> "Subject to subsection (7), any reference in this Act to the disposal of an asset or a lease shall exclude any disposal of an asset or lease by or to a person pursuant to a scheme of financing approved by the central bank, the Securities Commission or the Labuan offshore Financial Services Authority, as a scheme which is in accordance with the principles of Shariah where such disposal is strictly required for the purpose of complying with those principles but which will not be required in any other schemes of financing"

This provision helps to keep the cost of Islamic financing to be at the same level to the cost of conventional financing. In addition, any additional stamp duty in lieu to the transfer of the underlying transactions is also exempted as long it is for the purpose of Shariah requirements. Not only have that, the above provision also overridden the Schedule 3 of ITA.

Under normal circumstances as per Schedule 3 of ITA, the transferor of the asset will always be liable to the balancing adjustments (either balancing allowance or balancing charge, based on the difference between the sales proceeds and the tax written down value of the asset) for every disposal. However, Section 2(8) overrides the requirement and the transferor will not be subjected to the balancing adjustments. Such that the transaction remains tax neutral.

In addition to the specific provision in the ITA for Shariah finance instruments, changes have also been made to the Stamp Act, 1949 with the same spirit so that the Islamic financing transactions are not adversely taxed as compared with its conventional counterparts.

According to the Stamp Duty (Exemption) (No.2) Order 2000, PU(A) 16/2000, that any issue or transfer of private debt securities issued under Shariah Law are exempted from stamp duty. This provision is cemented by the Stamp Duty (Exemption) (No.2) Order 2004, PU(A) 19/2004, whereby all instruments executed between customer and financier with regards to Asset Sale Agreement and Asset Lease Agreement is exempted from stamp duty if it is made under the principle of Shariah for the purpose of renewing any Islamic revolving financing facility.

According to the Stamp Duty (Exemption) (No.3) Order 2004, PU(A) 20/2004, any instruments made by financier relating to the purchase of property and to lease it back will be exempted from stamp duty as long it is made in accordance with the principles of Shariah or if it is under a principal sale and purchase agreement by which the financier will assume the contractual obligations of a customer.

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If Two Worlds Would Meet in Luxembourg: Islamic Finance and Shipping

By Cedric Raths

Shipping companies are facing difficulties to get bank financing as the credit crisis has drastically reduced the appetite of conventional banks. Several ship owners have been forced to cancel or postpone their orders of new vessels and hence delayed the upgrade of their fleets.

The world economy could suffer from this lack of financing because it relies on the shipping industry to transport the world's trade. Shipping remains as one of the most economical and effective means to carry much of the world's goods. Shipping being crucial to our economy, the demand for shipping services will always be significantly high and the demand for financing to facilitate the construction and purchase of vessels ensures shipping financing to be prominent.

Historically, ship finance was undertaken by banks based in Hamburg, Germany, and these banks have been hit so hard that a few of them were close to bankruptcy. Considering the massive drop in tonnage prices, the credit committees of most banks have drastically reconsidered their lending strategy.

Vessels being by nature Shariah compliant investments, gives excellent opportunity to step into the financing gap left by the conventional banks and to become a viable alternative.

Involvement of Luxembourg in shipping

In 1990, Luxembourg introduced the Maritime Act to create the maritime public registry and to create the Commission for Maritime Affairs (Commissariat aux Affaires Maritimes, CAM — Luxembourg supervising authority). The Maritime Act defines the notion of accredited maritime company and accredited maritime manager.

The CAM has been the first Luxembourg administration getting the ISO 9001 certification and since 2004 it is under the responsibility of the Ministry of Economy and Foreign Trade.

Luxembourg is on pole position of the largest inland registries in the world, with more than 240 registered commercial vessels reaching 1.9 million gross tons.

Luxembourg has a favorable environment for crew members and maritime companies. Crew members onboard of vessels sailing under the Luxembourg flag benefit indeed from excellent social protection and are subject to Luxembourg labor law. The labor costs, including social security contributions and taxes, are the most competitive in the EU.

Profits of maritime companies operating under the Luxembourg flag and renting out vessels used in international traffic are not subject to Municipal Business Tax (6.75% from the 1st January 2009).

A maritime company can depreciate its vessels by using a linear method or an accelerated method. It may also make provisions for large-scale repair and maintenance work on its vessels fleet.

As any other Luxembourg company, it may benefit from an income tax credit on its investments whereby second-hand vessels may also qualify. It may also carry forward indefinitely losses incurred during previous accounting periods and offset them against the taxable income of the current accounting period.

There is no tonnage tax in Luxembourg which represents a significant competitive advantage in case of an economic crisis; the maritime company pays taxes on its annual income which can be much lower in difficult times and not a tax based on a dormant fleet.

Under certain conditions, capital gains arising from the sale of a vessel ("asset deal") may be rolled-over by reinvesting the sales proceeds into new qualifying assets. This allows a maritime company to renew its fleet in a tax efficient manner and on a regular basis.

For tax optimization reasons, two layers of Luxembourg companies are often used. In this scheme, instead of selling the underlying vessel, the top holding company ("HoldCo") sells its subsidiary ("VesselCo") which owns the vessel. By such a "share deal", capital gains realized on the disposal of the shares of VesselCo may be fully exempted in Luxembourg.

Finally, profits generated by a maritime company may be repatriated to its shareholders at favorable conditions due to both internal laws and due to the large list of Double Tax Treaties (such as Malaysia, Qatar, UAE, and Indonesia) signed with Luxembourg.

Involvement of Luxembourg in Islamic finance

Despite being a non-Muslim country, Luxembourg has a long lasting experience in Islamic finance. First steps were already undertaken well before the maritime register initiative.

In 1978, Luxembourg was the first western country that hosted an Islamic finance institution. In 1983, the first Shariah compliant insurance company in Europe was established in Luxembourg and in 2002 Luxembourg was the first European stock exchange to list a Sukuk.

In 2009, the Luxembourg Central Bank became the first non-Muslim organization member of the Islamic Financial Services Board (IFSB).

On January 2010, the Luxembourg Tax Authorities released a circular clarifying the tax treatment applicable to instruments of Islamic finance.

The instruments described were:

- Murabahah (cost-plus financing)
- Musharakah (partnership)
- Mudarabah (profit sharing between the contributor – the "Rab al maal" - and the entrepreneur – the "Mudarib")
- Ijarah (operating lease)
- Ijarah wa Iqtina (finance lease)
- Istisnah (production financing for future delivery)
- Sukuk (bond issue)

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If Two Worlds Would Meet in Luxembourg: Islamic finance and Shipping (continued)

The Luxembourg Tax Authorities defined the four instruments mainly used to finance shipping activities as follows:

- Murabahah (cost-plus financing): a sale based transaction whereby an investor acquires an asset (such as a vessel) for further resale to a client at a cost-plus profit. This is a financing arrangement where the cost-plus profit margin of the investor is determined in advance and may apply to all types of assets.
- Ijarah (operating lease): leasing agreement by which the party contributing the capital (generally a bank) acquires an asset (a vessel) for its client and places it as his disposal in return for a rental payment for a fixed period. The bank owns the asset and transfers the usufruct to its client.
- Ijarah wa Iqtina (finance lease): similar mechanism, where the client has the possibility of buying the asset at the end of the contract.
- Istisnah (production financing for future delivery): method of financing the production of a good (such as building of a vessel) that allows advance payment for a future delivery, or deferred payment for a future delivery.

On June, 2010, the Luxembourg VAT administration released a circular clarifying the treatment of Murabahah purchases and Ijarah leases for Luxembourg VAT and registration duty purposes.

The circular confirmed that SPVs incorporated in Luxembourg and created under Murabahah or Ijarah agreements should qualify as taxpayers for VAT purposes.

> "Luxembourg is where nobody expected it to be, one of the largest inland maritime registries and one of the largest non-Muslim Islamic finance hubs in the world"

Islamic finance regatta

As per Professor N Khalid a Research Fellow at Maritime Institute of Maritime Association, "in the last two decades or so, Shariah financing has grown in prominence in facilitating the growth in the shipping sector. Over the years, several high profile ship financing deals have been transacted using Shariah principles. They involved marquee names both on the lending/arranging side and the borrowing side."

The increasing popularity of Shariah financing in ship financing stands testimony to its viability as a worthy, if not more attractive, alternative to its conventional counterpart. The framework of Islamic banking, financing, insurance, tax and other finance-related areas have been strengthened to such an extent where Shariah financing has emerged as a lucrative industry on its own with its own high financing, accounting and ethical standards which are highly regarded even by conventional financing practitioners.

Shariah financing has already developed a decent track record for itself as an alternative means of raising financing in shipping.

While much of the financing raised in shipping is still interest-based, there is huge potential for Shariah financing, with all its attractions and strengths, to grab a bigger slice of the ship financing pie. As more Shariah financing deals are successfully transacted in shipping, there will be growing confidence among ship owners and operators of the viability of 'going Islamic'. Islamic bankers and financial dealmakers have proved to be skillful and adapt at developing attractive financial structures and engineering innovative solutions in meeting the funding needs of their clients in the shipping markets.

Shariah financing, which features highly transparent, no-surprises, pre-agreed financing structures and costs and known risks offers the opposite end of its conventional counterpart.

The emergence of innovative and attractive financing structures based on Shariah principles in shipping in recent years augurs well for its continued contribution to the growth of global shipping and hence global trade and economy. When applied and structured judiciously and creatively, Shariah financing can no doubt stand shoulder to shoulder, if not taller, than conventional financing in raising adequate and competitive financing in shipping.

Ijarah's structure for shipping

The shipowner selects the vessel which will meet his needs. The Islamic bank sets up an accredited maritime company in Luxembourg which buys a vessel, then leases it to its customer, the ship-owner. The accredited maritime company (lessor) applies for a bareboat chartered out registration of the vessel in Luxembourg and the customer (lessee) applies for a full registration in the country of his choice. The lessor is the sole owner of the vessel (he retains the legal title on the vessel) until the end of the lease, the customer makes a series of lease payments until the end of the term of the Ijarah agreement and the customer can eventually exercise an option to buy the vessel (in case of an Ijarah wa Iqtina).

Under certain conditions, the lessor benefits from the favorable Luxembourg tax framework reserved to the accredited maritime companies and its profits can be repatriated via the Islamic bank at competitive conditions.

In practice, an accredited maritime company is set up per vessel acquired. The structure could be developed further by adding a Luxembourg Fund vehicle on the top in order to hold all accredited maritime companies. The Islamic bank would then be able to distribute fund units to its clients and benefits from Luxembourg's confirmed reputation and expertise in the funds industry. As such, Luxembourg is where nobody expected it to be, one of the largest inland maritime registries and one of the largest non-Muslim Islamic finance hubs in the world.

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Cédric has 14 years experience in the Luxembourg domiciliation business. He specializes in providing services to a wide variety of clients including private equity funds, Islamic finance, maritime companies, venture capital funds, real estate funds, investment funds, securitization vehicles and private holding companies.

Islamic Asset Management

By Mark Watts

The clue is in the title as they say — but the emphasis and relative weight placed on the term 'Islamic' versus 'asset management' has differed over time, from person to person and even country to country. I am happy to say that due to the continued efforts of my colleagues in the industry over a good number of years, true fully-fledged asset management is now available and there are now no barriers to an Islamic investor who wants to align his religious beliefs with his wealth management goals. Pitfalls still remain for the unwary, to help discover them let's look first at some history.

I have been fortunate enough to work in the asset management industry since the '80's and have further been fortunate enough to manage money for clients all over the globe. Clients ranging from retail (via mutual funds) right up to central banks and some of the largest pension funds in the world. If this experience has taught me one thing it is the right of an investor, however big or small, to receive good investment advice and to have his money professionally managed.

My journey in asset management has only latterly taken me into the sphere of Islamic finance but I have found that my maxim need only be altered marginally to encompass faith based investing and still ring true:— Investors, whatever their faith or size have the right to receive good investment advice and to have their money professionally managed.

But why the need to make this point? Sadly, the experience of many investors in the Islamic space has, in the past, been poor. Products have been inappropriate for the client (a symptom of poor advice) and have been poorly designed and managed (a lack of true understanding and expertise). This experience is by no means the rule as there are many excellent firms out there giving solid advice and executing sound strategies, however finding them has not always been easy. Islamic asset managers of today often come up against a perception barrier driven by prior experience which is something that needs to be overcome before progressing.

The main problems?

Training and experience — An investor should always look at the expertise and experience of the person giving advice. Irrespective of faith, most investors have the same fundamental drivers, things such as saving for a future event like a child's education or at the institutional level, discharging their mandate such as long term charitable giving.

Effectively this puts most investors firmly in the ambit of modern portfolio theory with common goals such as return maximization for a given level of risk or income generation. This does not change if you invest Islamically or otherwise. The people who advise you and invest your money need to be schooled in these concepts and adept in applying them in real life situations. You would not let an untrained mechanic service your car, why let an untrained fund manager invest your life savings?

I am happy to say that there are now more people in the Islamic asset management industry that can claim both formal investment training and also training in Islamic finance and the concepts needed to structure investment products. The industry has changed much over the last five years, and the last three have seemed tremendous strides in the provision of product and the reduction of the associated costs. I can confidently say that in many markets there are now a host of products available to satisfy client needs but much work still needs to be done.

"Islamic asset managers of today often come up against a perception barrier driven by prior experience which is something that needs to be overcome before progressing"

As with any investment, care should be taken as to what is being bought and I believe that the market will continue to distinguish more readily between those products that have attained 'Shariah compliance' through adherence to the letter but not the spirit of the law — a wolf in sheep's clothing if you like — and those products that are truly innovative and adhere to the spirit of Islam.

What should investors do today? There are a few cardinal rules to follow before we examine the global economic backdrop:—

1. Make sure whoever is advising you understands what your goals, your timescales and your attitude to risk are (even if it is yourself)
2. Make sure that they look at your whole portfolio and get a holistic overview of your total wealth (both what you have now and your future income)
3. Make sure that you are not overly exposed to any one area or theme (diversification/not having all your eggs in one basket)
4. Make sure your assets are regularly reviewed alongside your current circumstances

Achieving the above will go a long way to providing a solid investment framework, the rest in a case of asset allocation and investment timing. It applies oddly enough to both individuals and institutions.

How does the investment world look today?

Investors understandably are scared and wondering what to do next. Many have been caught with too much exposure to equities and real estate, finding out that after the fact the two can become quite correlated. The default position for many is now cash which unfortunately is not yielding much and value is being eroded by inflation.

What next?

I believe that the days of wholesale systemic risk are behind us, the system effectively having been underwritten by the likes of the Federal governtment post the collapse of Lehman. We appear to be experiencing a global recovery from the lows in economic

continued...

Islamic Asset Management (continued)

terms but one that is punctuated by 'risk flare ups'. This year we have seen this in the shape of European sovereign default worries and the risk of a double dip in the US.

But what normally happens in many cases in a recovery situation after the initial huge shock, you often get aftershocks but they tend to be reduced in magnitude versus the initial one and have a successively smaller impact on markets either in terms of size of move or duration of the problem.

Looking outside of the US, whose financial system many could argue was the architect of the current global woes, we find that different regions have wildly differing growth outlooks with some like Asia shrugging off many of the global issues and starting to put in decent underlying growth.

> "Elsewhere, equities are showing signs of basing in the GCC with some markets looking very attractive on a globally comparative basis"

Opportunities are tentatively emerging and one to watch in the Islamic space is the Sukuk market which is effectively a low duration market with a high credit exposure. Although a big exposure to interest rates is not advisable at this stage in the cycle the relative defensiveness of the Sukuk market will help investors avoid the worst of any pull back in rates. I would advise looking for a manager that can use products like profit rate swaps to alter interest rate exposure (alas not the norm in the market). What is attractive is the level of spreads available on certain credits which have suffered as a result of the events of the last few years, but still retain solid underlying fundamentals. These wide spreads are what fund managers who do in depth credit analysis look for — misplaced risk premiums.

Elsewhere, equities are showing signs of basing in the GCC with some markets looking very attractive on a globally comparative basis. It is still a little too early to make a definitive call on re-entry, but signs are encouraging.

All in all, while we are not out of the woods yet, I believe that the worst is over. The Islamic asset management industry has positioned itself perfectly to partner with investors as confidence returns and to guide their clients toward attaining their investment goals.

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Corporate Governance Lessons for Islamic Financial Institutions

By Mohammad Faiz Azmi and Liza Mydin

There were many lessons learnt from the global financial crisis (GFC). These centred on the weaknesses revealed in the governance of financial institutions, liquidity and capital issues affecting sustainability, the role of accounting standards and finally the types of businesses and structures of financial institutions.

As a result, a number of thematic studies on the impact of corporate governance (CG) weaknesses in financial institutions have been undertaken across the globe. The common factors identified by these studies include lack of board oversight and failing risk models.

The Islamic finance industry too was not spared from its issues during the crisis. As the respective standards setting bodies strive to enhance CG for conventional banking, it is timely that Islamic financial institutions (IFIs) adopt similar efforts to assess the robustness of their CG practices.

CG is defined by the Organization for Economic Co-operation and Development as the set of relationships between an institution's management, its board, shareholders and other stakeholders. Simply put, CG serves to ensure and provide a balance between delivering shareholder value and protecting stakeholders' interests.

For IFIs to assess their CG practices, it is worthwhile to understand what is meant by sound CG for IFIs and how its practices differ from those of conventional financial institutions.

The two essential elements which are unique to the IFIs make up and structure are the authoritative role of the Shariah scholars in the Shariah committee and the board's role in ensuring that Shariah principles are complied with.

> "IFIs often do not define the agreed course of action when the committee and board have a difference of opinion"

The role of the Shariah committee and the board

While the board of an IFI is accountable for the stewardship of the institution, the Shariah committee provides a system of checks and balances, which ensures that the IFI's activities are conducted in accordance with Shariah rulings and principles. Good CG practice involves ensuring that the roles of the committee are clearly articulated and areas that fall under their purview are properly defined.

There have been a number of cases locally and globally in which the Shariah compliance of products sold by IFIs were challenged. While these challenges were not entirely successful, they do demonstrate that a robust and transparent framework is essential in the defence of such allegations.

Other areas needing further thought are the role of the committee in strategy, the boundaries of their work, the dispute resolution process along and the performance appraisals of the committee itself.

Existing guidelines suggest that the committee's involvement is not necessarily required in the planning and strategising of business initiatives for the IFI because their tasks tends to focus on present and historical events rather than building up a future strategy.

However, given the need to innovate, the more the is involved in strategy, the better the chances are that products will evolve to meet future needs and not just replicate existing products.

The scope of the committee mandate is also not always well articulated. While it is generally understood that its role is primarily in ensuring product compliance, its role in operational, reporting and administrative areas is not spelt out clearly; if articulated properly, this would result in clear reporting lines and communication for the IFI.

For example, IFIs often do not define the agreed course of action when the committee and board have a difference of opinion. To address this, the board and the committee should have regular dialogues such as the committee presenting the board with a report of the activities it has conducted for the year. They should have a mutual respect of each other and cooperate in carrying out their roles and duties.

It is common in most organizations for key functions to have formal appraisals of their performance, boards included. The committee should be included in this process to assess their effectiveness and improvement areas. Areas such as Shariah scholars training, involvement in innovation and industry work, and time devoted to the IFI's activities should be looked into.

One recent practice worth noting is the setting up of a management function to assist the committee — often termed the Shariah Secretariat. In the past, the Secretariat's role was to conduct administrative functions for the committee.

Today, the Secretariat plays an additional Shariah advisory role to management, to help strengthen the IFI's efforts of ensuring Shariah compliance. IFIs that fully utilise this Secretariat function often find that they benefit from minimum rework to papers tabled to the committee due to effective management of Shariah related matters within the IFI.

Integrating risk, audit and compliance

It has been said that risk models failed during the financial crisis because of excessive risk taking and the practice of conducting risk management as an activity on its own rather than enterprise-wide. IFIs should consider these points and seamlessly integrate strong risk management, internal controls and a compliance framework.

Embedded within this framework are Shariah risks which should be treated similar to other risks faced by the IFI such as legal or regulatory and managed holistically to ensure that issues are not overlooked.

continued...

Corporate Governance Lessons for Islamic Financial Institutions (continued)

In particular, the interaction between the Shariah committee and the risk and audit committee needs to be well defined to ensure overlaps are identified, gaps addressed and a dispute or resolving process is clearly articulated.

Shariah audits are critical in ensuring Shariah compliance and giving peace of mind to stakeholders. However, an issue that is not always addressed is managing potential conflicts.

The committee is primarily responsible for certifying compliance of products but it also holds the responsibility of checking on compliance through the use of Shariah audits, which are designed to enable the committee to make external certifications. This potential conflict could be addressed by outsourcing some of the work to external parties and as a way of getting fresh perspectives on issues.

> "One common theme in GFC studies, referred to above, was the boards' lack of critical knowledge of how banks manage their businesses and risks"

Managing the stakeholders

The management of the IFI's stakeholders should go hand in hand with efforts to educate stakeholders on the institution's commitment to Shariah principles.

The objectives of Shariah include that due consideration is given to promote fairness, justice and the social wellbeing of stakeholders. The conduct of the IFI's fiduciary responsibilities consciously mirrors these guiding principles.

The IFI has a duty to be forthright and transparent in reporting and disclosing pertinent information to their shareholders, stakeholders and the public. One other area identified in some foreign commentators' views is the lack of disclosure of interlocking relationships and opaqueness in shareholdings by some IFIs.

Compliance with reporting principles embedded in international accounting standards such as the IFRS, should be considered as a minimum requirement.

One common theme in GFC studies, referred to above, was the boards' lack of critical knowledge of how banks manage their businesses and risks. Shariah is a critical business issue for IFIs and therefore IFI boards have an obligation to educate themselves better in order to be able to explain and educate others.

Taking cognisance of the need to establish better CG guidelines for IFIs, the central bank of Malaysia, Bank Negara Malaysia and the IFSB are among the standard setting organisations that are proactively developing acceptable practices for the industry. In the pipeline are regulations to improve the clarity and practices as well as strengthening and improving the quality of Shariah scholars.

Conclusion

The recent crisis has shown that there are many lessons to be learnt. Many of these lessons are relevant to Islamic banking and should be considered carefully by IFI boards. While the industry may have emerged from the crisis relatively unscathed, there is always room for improvement.

Given the increasing growth and impact of Islamic finance globally, it is important that IFIs are not too complacent and take steps to improve their practices and strengthen the industry further.

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Next Forum Question

How will the establishment of the first African re-Takaful company contribute to the prospects of Takaful and re-Takaful in Africa and will there be significant demand for such products?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Christina Morgan, Forum Editor, at: Christina.Morgan@REDmoneygroup.com before Monday, 11th October 2010.

Islamic Mutual Funds Part III — Investment Instruments and Capital Markets

By Dr Hisham Jabr

Some central banks and monetary authorities place restrictions on investment by banks and financial institutions in the funds to minimize risk. These restrictions are —

1 The fund is allowed to invest not more than 10% of its net assets in another fund's shares, provided that these investments will not exceed 15% of the net assets of the other fund.
2. The fund is not allowed to own more than 1% of the capital of any domestic corporation listed in the domestic financial market.
3 In addition to other restriction, this aims at reducing risk through more diversification.

Investment instruments which Islamic mutual funds can invest

Islamic mutual funds invest in instruments that are in conformity with Islamic Shariah. These instruments should have the following characteristics:

1. The ownership of these instruments should be linked to a share from the assets of the issuing firm, and not a determined share of return. For example, in the case of buying equipment financed with Sukuk, the Sukuk own shares from the assets of the issuing firm. If these equipments (assets) are leased, the owner of these Sukuk has a share from the rent, because he is considered as one of the owners.
2. Owners of Sukuk shares in the profit as well loss. They have the right to get their shares of profit resulted from the investment of these assets either, through trading or leasing, according to agreed upon ratios, relative to their percentage of ownership of the Sukuk.
3. Sukuk owners are responsible for the ownership expenses like insurance cost, maintenance, ownership tax, and any other expenses.
4. There is no guarantee for the par value of the Sukuk, because Sukuk owners bear the risk, and subject to profit and loss.

All types of investments in Islam are Halal, unless those cited by Shariah that are considered Haram. Activities include any effort to produce market or consume any of these Haram activities either directly or indirectly. Haram activities include dealing with riba (usury) such as the establishment of conventional banks, purchasing their shares, depositing money with them or borrowing money from them. Haram activities are:

1. Investing in conventional bonds, treasury bonds
2. Exchange of currencies on a forward basis
3. Conventional insurance
4. Dealing with wine, drugs and so on either producing, trading or consuming
5. Gambling and any other activity which facilitate gambling
6. Any contract based on cheating
7. Among many others which are not beneficial to the human being.

Islamic investment instruments are based on two main principles — labor and capital. These two principles should work together to produce profit. In order for these instruments to succeed, it should have a secondary market to provide liquidity. Since these instruments are considered as owning a share from the assets of the issuing company, this share can be traded in an organized secondary market.

Investment instruments that form Islamic capital market

1. Muqarada Sukuk (Mudarabah):

These are documents each with the same value to be issued in the name of their owners, instead of the money they paid for to implement a project, and being managed to make profit. The owners of these Sukuk receive a certain percentage of the income generated by the project. This percent should be included in the indenture. Owners of these Sukuk do not have the right to receive any interest. Some government might guarantee the face value of these Sukuk to their owners, if the government wants to encourage financing a project with issuing Sukuk. In this regard, such as when the government guarantees the face value, and pays the amounts to the Sukuk owners at the redemption date, this amount becomes a loan without interest from the government to the project.

There are two types of Muqarada Sukuk—

a) Muqarada Musharakah Sukuk — it is a kind of investment deposits, the issuer can use the proceeds from the issue to be invested in any project of the issuing company. The Sukuk owners can participant in the profit of all projects of the company on an agreed upon percentage.
b) Specialized Muqarada Sukuk — the proceeds from selling the issue are to be invested in a specific project. Owners of Sukuk participate in the profit or loss of that project, whatever, the result of the company as a whole.

2. Musharakah Sukuk

This type of Sukuk is similar to Muqarada Sukuk, but it differs in that the relationship between the Sukuk owner and the issuer of Muqarada is Mudarib by the capital provided by owners of Sukuk (such as the Mudarib, who is partner by his effort). The relationship in Musharakah Sukuk is that the issuer is also one of the owners of the Sukuk. The issuer gets profit as one of the capital owner, and a certain percentage as a partner in his efforts. The Sukuk owners will form the committee to manage the issue. There are many other forms of investment instruments called according to the purpose of investment — Manufacturing Sukuk, Murabahah Sukuk, Salam Sukuk, non-voting stocks and so on.

Index of Islamic instruments

Foreign financial institutions were concerned about the increase in the demand on the Islamic finance. In America, LARIBA finance house was founded and established several Islamic mutual funds.

Dow Jones published the first index of Islamic capital in Bahrain in 2000, called Islamic Dow Jones Index. This index is considered the first index that follows the Islamic capital market. It started by listing

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Islamic Mutual Funds Part III — Investment Instruments and Capital Markets (continued)

about 50 companies with total investments of about more than US$50 billion. Another Dow Jones Islamic Index is found in Turkey on 2005 to follow up about 17 Turkish companies, with total assets of about US$4 billion. These companies which are included in the Islamic Dow Jones deals with Halal products and all their activities are halal. The capital included in the index is estimated to be about US$8 billion consisting of 1416 companies. The index includes also some of the international companies which practice acceptable activities from an Islamic point of view. This indexes assisted by an Islamic body consists of Islamic scientists in Shariah from Syria, Pakistan, Saudi Arabia, Bahrain, and the US.

This index helps in—

a) serving the Islamic mutual funds to measure their performance
b) serving about 28000 worldwide companies to know the performance of the Islamic financial markets. This index is unused in 48 countries. The number of Islamic mutual funds in Dow Jones Islamic Index is about 100 mutual funds with total assets of about US$40 billion.
c) attracting Arab Money invested abroad, to be invested in the Arab countries in the form of mutual funds, and or shares in companies listed in Islamic Dow Jones Index.
d) giving a comparative advantage to Islamic financial Institutions through the internet. The existence of this index will encourage investment.
e) the Islamic financial Institutions to respond to clients' demand on Islamic Investments.
f) the investor constructing a portfolio, which is highly liquid, and with high return at a very low cost.

Islamic investment instrument conditions for success

These conditions are —

1. The existence of the legal and organizational framework. The necessity to make the Sukuk known and the existence protective covenant s to protect Sukuk owners.
2. The existence of the Shariah frame work for the Sukuk.
3. Sukuk should represent real assets of an amount exceeds debt and cash money. This will make it easy to be traded in the financial market.
4. The controlling body on the Sukuk should be determined. Moreover, controlling measures and standards should also be determined.
5. Brokerage conditions and role should be determined.
6. The Sukuk should not be traded in the market at a price differ from the par value of the Sukuk, unless the proceeds from the selling of Sukuk are transferred into real assets.
7. The existence of an organized market for the trading of these Sukuk by which they are traded at the price of each day.
8. Composition of a body for each Sukuk owner's issue.
9. There should be continuous control on the activities of the Islamic financial market and the compliance of the disclosure requirements.

The existence of these instruments will help Islamic bank to invest the excess of liquidity in these instruments, thus, help in accelerating economic development.

Characteristics of Islamic Sukuk

Islamic Sukuk differ from conventional bonds. It has the following characteristics —

1. Islamic Sukuk should be in conformity with Shariah principles.
2. They are investment bonds in their nature. It is linked by a project which produces goods or services for sale.
3. Some are used to finance fixed capital, while, the others are used to finance working capital.
4. Different types of Sukuk can be issued, for a short term and long term.

Benefits of new Islamic investment instruments

The benefits to the society from the introduction and marketing Islamic financial instruments are:

1. Providing corporations with the needed financing, without the need to borrow with interest.
2. The contribution in the economic development of the country through the contribution of citizens with the government in the development projects.
3. Investment instrument will help in using the Islamic banks', and conventional banks excess of liquidity in buying these instruments
4. The instruments will help in the existence of Islamic financial market requirements.
5. When these instruments are existed, this will facilitate their trading in the international financial markets. Harvard University and Willington Company with the cooperation of the Middle East center prepared a study about Islamic financial Instruments, and their current applications.

Many of the Islamic countries issued laws and regulations to help introduce Islamic instruments like Jordan, Pakistan, Turkey, Malaysia, Bahrain, Egypt and Sudan.

Obstacles facing an Islamic financial market:

The introduction of new Islamic financial instruments depends upon the existence of n Islamic financial market, to help trading of these instruments. There are many obstacles in the establishment of an Islamic financial market. These are —

1. The Islamic instruments are not developed in the same way like other conventional instruments.
2. The absence of a legal and Shariah framework to register these instruments in the current financial markets.
3. The absence of unified currency to help the issuance of these instruments in one currency to be traded in all the Arab and Islamic countries.

To overcome obstacles facing the establishment of an Islamic financial market, the following steps should be taken —

1. The introduction of a unified currency like Islamic dinar, which is a unit of account to facilitate the marketing of the new issues of these instruments and the unified currency will help overcome the fluctuation in the exchange of currencies.
2. Imposing legal and Shariah rules to be abided by all Islamic countries, and to deal with the new instruments.

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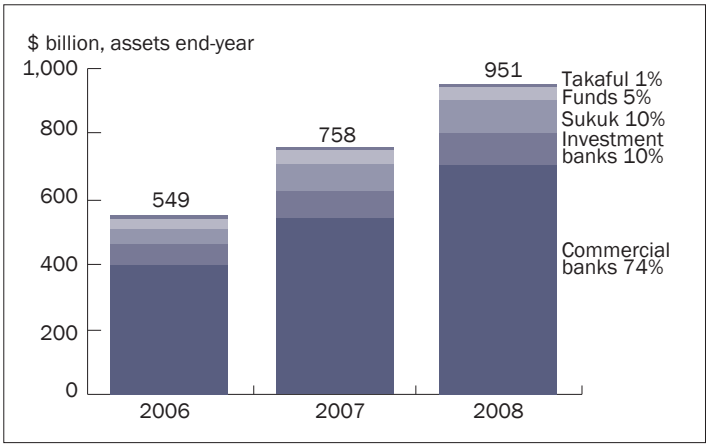
Scope and Prospects of Islamic Banking in India

By Mohammed Saifullah Khan

The resilience and dynamic growth of the Islamic finance industry (IFI) during the global financial crisis have presented the estimated US$1 trillion industry with an opportunity to expand as a robust alternative to the conventional financial system.

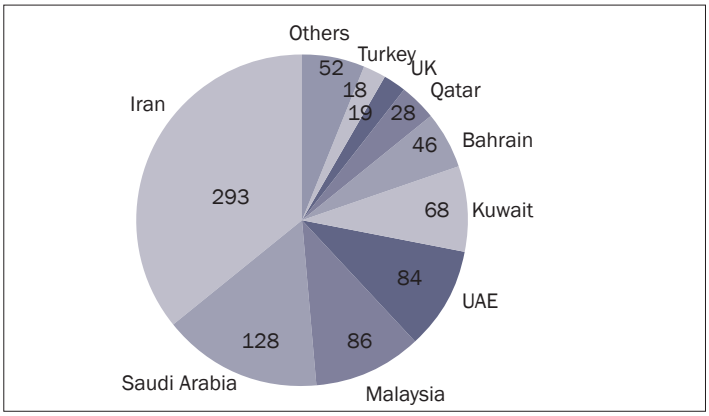
The IFI assets represent approximately 1% of global assets, 74% of which are Islamic (see Figure 1). Since 2000, the IFI has been growing annually upwards of 20% and by 2012 it is estimated that IFI's assets will reach US$1.6 trillion with revenues of US$120 billion according to the Islamic Financial Services Board.

Figure 1 — Global assets of Islamic finance



**Source: International Financial Services London (IFSL) estimates based on The Banker, Ernst & Young*

Figure 2 — Geographic breakdown of Islamic finance



**Source: The Banker*

From being concentrated in Muslim populated regions Islamic finance and banking has witnessed exceptional growth globally (see Figure 2) but it is surprising that Islamic banking is yet to make inroads in India.

The only application of Islamic finance from an Indian context being the sporadic Shariah compliant funds and the offerings of Shariah compliant financing at micro-economic level (non-banking financial cooperation and cooperatives).

Scope of Islamic banking in India

The application and growth of Islamic banking in India shows great promise for the following reasons:

(i) Financial inclusion

India is the home to the third largest Muslim population of the world. The findings of the Sachar committee (Access to Bank Credit, Social, Economic and Educational Status of the Muslim Community of India, A Report [Sachar committee], 2006), show that the access of Muslims to bank credit is low and inadequate and among other measures there is need to introduce steps to specifically direct credit to Muslims.

The Raghuram Rajan committee (RR committee) had identified that non-availability of interest-free banking products results in sections of Indians not being able to access banking products and services due to reasons of faith.

> "Non-availability of interest-free banking products results in sections of Indians not being able to access banking products and services due to reasons of faith"

The non-availability also denies India access to substantial sources of savings from other countries in the region (Broadening Access to Finance, Improving infrastructure for financial inclusion, A Hundred Small Steps, Report of the RR committee on Financial Sector Reforms, 2009).

The RR committee had recommended that measures need to be adopted to permit the delivery of interest-free finance through the banking system, which recommendation is in line with the requirements of financial inclusion since the financial sector performs the vital functions of enabling productivity and income growth in the Indian economy and has an important role in making growth more inclusive (Chapter 8 — Services, Volume III: Agriculture, Rural Development, Industry, Services and Physical Infrastructure, Eleventh Five Year Plan [2007-2012], 2008).

It is expected that Islamic banking will attract the hitherto unexposed customer-base (including people from the different religious communities), who otherwise have steered clear from conventional banking on religious and moralistic grounds.

(ii) Investment

The sectoral investment rate is a useful indicator of the direction of new investments. While the overall growth of investment in India was in the range of 15% to 16% annually during the last few years, it plunged to negative 2.4 % in 2008 to 2009 as a result of the external slowdown.

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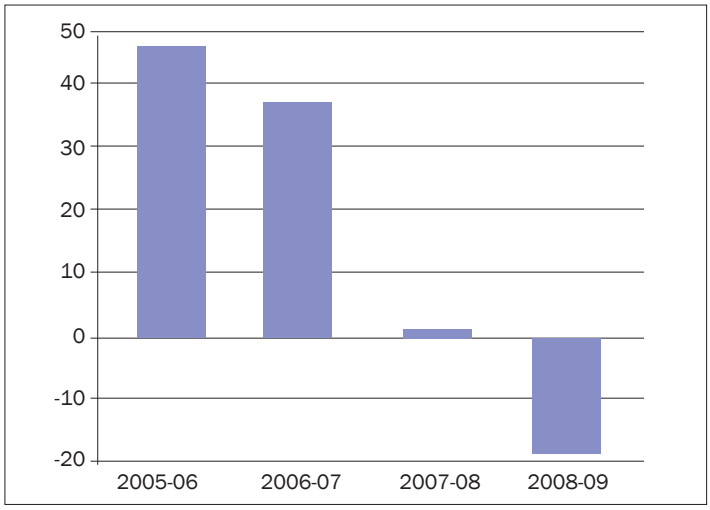
Scope and Prospects of Islamic Banking in India (continued)

Within the services sector, the global financial crisis had a dampening effect on investment growth in the banking and insurance sub-sector in 2008-09 with a negative decline of 18% (see Figure 3).

With the positioning of India as a regional hub for Islamic banking and finance, there is not only scope of growth of India in this sector but the advent of Islamic banking is expected to write a new chapter in foreign direct investment in India, especially from the GCC.

Figure 3 — Growth of gross capital formation in Indian banking and insurance



** Source: Based on the data of Central Statistical Organization (CSO)*

(iii) Alternative to conventional banking
The principles of Islamic banking with ingrained ethical fundamentals and focus on the real economy and investment have emerged as a viable alternative to conventional banking.

Islamic banking products and services are targeted to meet the requirements of people and would be suited to address the credit requirements of hitherto financially excluded sectors. Islamic banking may also provide the impetus for developing Islamic instruments like Sukuk to address the infrastructural and corporate needs of India.

Efforts for introduction of Islamic banking in India

Banking in India is regulated by the Reserve Bank of India (RBI) and the principal regulations that apply in respect of the banking regime in India are the Banking Regulation Act, 1949 (BR Act) and the RBI Act, 1934.

The RBI on the request of the Government of India had constituted a Working Group to examine financial instruments in Islamic banking (Working Group), which was the only definitive initiative undertaken to assay the application of Islamic banking in India.

The Working Group, relying heavily on the legal opinion issued by the Legal Department of the RBI (Legal Opinion), concluded in its report submitted in July 2006 (WG Report) that under the current statutory and regulatory framework it would not be possible for banks in India to undertake Islamic banking activities and if the banks are allowed to undertake Islamic banking, appropriate amendments are required in Banking Regulations Act.

It is perplexing that no concrete efforts have been subsequently initiated, either by the RBI or the Government of India to introduce Islamic banking in India following the WG Report or the pertinent findings and recommendations of the RR committee.

> "The cause of Islamic banking in India would be better served if affirmative action is taken by the government of India or the Reserve Bank of India"

Delivering Islamic banking in India

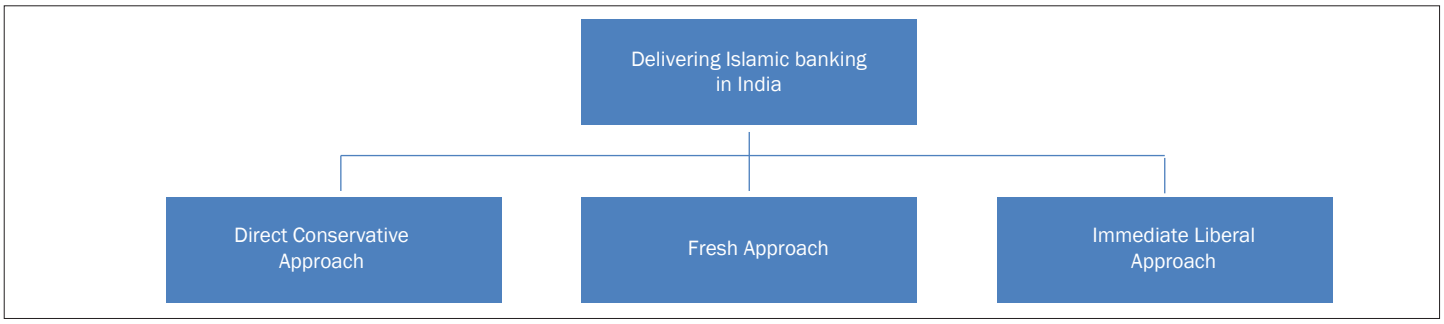
Islamic banking in India may be delivered by adopting any or combination of the following approaches (Proposed Approaches) (see Figure 4):

(i) Direct conservative approach
Relying on the WG Report, the government of India in association with the RBI may propose an amendment to the BR Act (including the provisions of Section 5, 6, 8 and 9), the RBI Act and other statutory or regulatory legislations for introducing Islamic banking in India.

Although a Banking Amendment Bill has been drafted by Dar Al Sharia and submitted to parliament secretariat by a member of the parliament to be undertaken as a Private Members Bill in the next session of parliament, the cause of Islamic banking in India would be

continued...

Figure 4 — Proposed approaches



Scope and Prospects of Islamic Banking in India (continued)

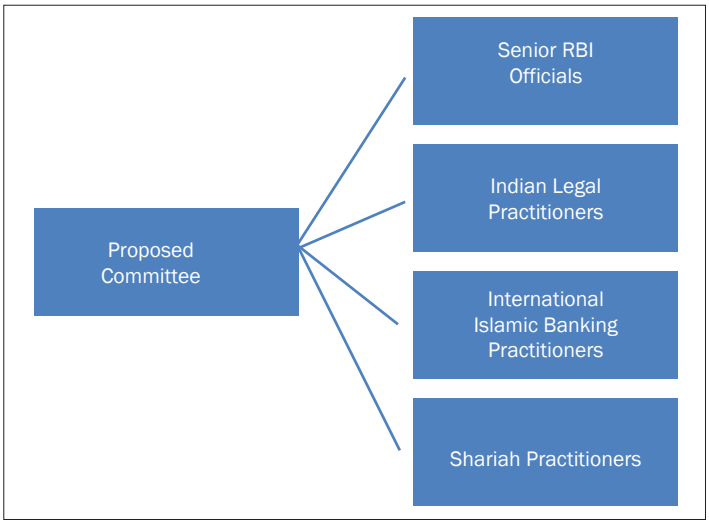
better served if affirmative action is taken by the government of India or the RBI.

(ii) Fresh approach
The WG Report was drafted more than five years ago by a Working Group which was constituted by bankers with little or no practical operational knowledge of Islamic banking and reliance was also placed on the legal opinion issued by the legal department of the RBI to arrive at their findings.

The Islamic banking industry has since developed vastly with organizations such as Islamic Financial Services Board (IFSB) and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) adding a fresh regulatory and operational perspective.

The recent developments warrant a fresh approach to analyze the scope and application of Islamic banking in India by constituting a suitably composed committee (Proposed committee) (see Figure 5). The recommendations of the proposed committee can then be implemented for delivering Islamic banking in India.

Figure 5 — Composition of the proposed committee



(iii) Immediate liberal approach
Although the BR Act had been drafted specifically for the purpose of conventional banking there is a possibility of delivering certain Islamic banking products and services in India without there being a need for wholesale statutory and regulatory amendments (Limited Islamic Products).

Illustratively:

(a) Pursuant to Section 5 (b) of the BR Act "banking" "means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise;". By definition, banks may accept deposits from public for the purpose of "investment", which concept is acknowledged under the principles of Shariah.

(b) Section 6 of the BR Act provides for the various forms of business in which banking companies may engage. There certain forms mentioned therein which do not require dealing with interest (riba), therefore there is a possibility to structure certain products and services which are Shariah principles.

(c) Since the RBI with effect from the 18th October 1994, has deregulated the interest rates on advances above INR 200,000 (US$4,500) (also in case of savings accounts) and the rates of interest on such advances are determined by the banks themselves subject to Benchmark Prime Lending Rate (BPLR) and spread guidelines , therefore there is scope of introducing certain Shariah compliant products within the framework of the BR Act with the concurrence of the RBI.

(d) Since credit card dues are in the nature of non-priority sector personal loans and as such banks are free to determine the rate of interest on credit card dues without reference to their BPLR there is a possibility to structure and offer a Shariah compliant credit card .

Until a more feasible statutory and regulatory framework is created to allow Islamic banking in India, the RBI may permit conventional banks to offer the limited Islamic products through Islamic windows.

> "There is a possibility of delivering certain Islamic banking products and services in India without there being a need for wholesale statutory and regulatory amendments"

Conclusion

Recently India has grown fast not only compared to its own past, but also in comparison with other nations. There cannot any complacency because it is possible for the Indian economy to develop even faster and also to spread the benefits of this growth more widely than has been done thus far.

The demographics of India are such that they can add a new facet to the application of Islamic banking. India presents itself with an opportunity to position itself as a regional Islamic finance and banking hub opening new vistas of growth and prosperity but the trillion dollar question is "Will India grab the opportunity or will it continue to be oblivious of Islamic banking?"

Mohammed Saifullah Khan
Assistant vice president
Dar Al Sharia Legal and Financial Consultancy (subsidiary of Dubai Islamic Bank)
Mohammed Saifullah Khan specializes in Islamic finance in particular Sukuk, funds, project finance, syndications, Islamic products, and corporate and retail products.

Islamic Finance *news* talks to leading players in the industry

Name: Saleem Ullah

Position: Director Islamic banking

Company: State Bank of Pakistan

Based: Karachi, Pakistan

Nationality: Pakistani

Could you provide a brief journey of how you arrived where you are today?

Ijoined the central bank in 1995 as a bank examiner and went up to the level of divisional head in 2000. As the divisional head, I was assigned a new portfolio to steer the development of legal, regulatory and supervisory framework for the microfinance sector in Pakistan.

After a successful career of about five years as head of microfinance, I was promoted as head of strategic management, State Bank of Pakistan (SBP) in 2005. In 2006, I pursued a masters degree in public policy at Kennedy School of Government, Harvard University, US.

Upon my return from Harvard in June 2007, I was appointed as director, development finance in SBP banking services corporation (SBP-BSC), I was then assigned the Islamic banking portfolio in February 2010 after my predecessor left SBP.

What does your role involve?

As director of the Islamic banking department, my primary mandate is to facilitate the development of a sound and stable Islamic banking industry in the country. For this purpose, we develop and enforce an enabling legal, regulatory, supervisory and Shariah compliance framework for Islamic banking institutions (IBIs).

The development of Shariah compliant liquidity management solutions is another important area of my interest. A keen interest and involvement of stakeholders in the area gives me optimism about early development of such solutions.

Besides the prudential and Shariah framework, we are also actively engaged in promotion of Islamic finance as a viable and competitive solution for meeting the economy's financing needs.

The field network of SBP-BSC is also being leveraged to reach to the stakeholders for creating awareness and fueling the demand for Islamic finance.

What is your greatest achievement to date?

My greatest achievement was the development of legal, regulatory and supervisory framework for the microfinance sector in Pakistan.

Though my association with Islamic finance is very recent, I have given a slogan for Islamic finance 'Lets Grow Together' which highlights the basic philosophy of Islamic finance such as equity, justice, and mutual growth of IBIs' shareholders, depositors and entrepreneurs. The slogan is well received by the industry and will be instrumental in bringing more transparency and equity in Islamic finance products and services.

What are the factors contributing to the success of your company?

The reputation of SBP as a professional and vigilant regulator of the financial sector coupled with our approach to develop policies through a consultative mechanism gives us the necessary strength in designing sector friendly policies and initiatives.

The Islamic banking industry in Pakistan is growing on an average of more than 30% annually for the last five years, which among others is also attributable to the supportive SBP policies for the sector and its non-traditional role of market facilitator/developer.

The SBP Shariah compliance framework, which not only allows necessary flexibility to IBIs to design Shariah compliant products but also ensure compliance with the Shariah, is also a major strength that gives comfort to the consumers about the Shariah compatibility of Islamic finance products.

What are the obstacles faced in running your business today?

These obstacles are:

a) the industry's which is less than eight years — Anything below eight years is too small a period to capture major chunk of the financial market;
b) lack of awareness;
c) limited outreach of IBIs — just 650 branches compared to more than 9000 of conventional banks concentrated in a few big cities;
d) lack of human resource capacity;
e) limited product range which discourages the business community to shift to Islamic finance.

Where do you see the Islamic finance industry in, say, the next five years or so?

The industry will keep its current growth momentum and increase its share by 12% to 15% from the existing 6%. The product mix will also diversify with geographical outreach stretching to second and third tier cities.

Name one thing you would like to see change in the world of Islamic finance.

I would like the industry to gradually move to Shariah based solutions from the existing Shariah compliant solutions. The Shariah based solutions meets the Shariah requirements both in structure and substance.

Mere structuring and replication of conventional products to make them Shariah compliant may weaken people's belief in Islamic finance and may thus impede the growth momentum.

SUMMARY OF TERMS & CONDITIONS

CJ Capital Sukuk Murabahah

RM114 million
(US$37 million)

15th July 2010

Obligor/Issuer	CJ Capital
Tenor	Up to 10 years with maturities of one through 10 years
Return	3.30% to 5.54% per annum
Payment	Annual repayment from Year One to Year 10
Maturity Date	15th July 2020 for the final 10th year tranche
Arranger/Dealer	Kenanga Investment Bank
Trustee	Equity Trust (Malaysia)
Legal Counsel	Zul Rafique & Partners
Governing Law	Malaysian Law
Purpose of issuance	Payment to contractors and repayment of existing borrowings
Principal activities	Special purpose funding vehicle for the purpose of raising financing through the Sukuk Murabahah
Rating	'AAA'- RAM Rating Services
Shariah Advisor	Dr Mohd Daud Bakar (Chairman for the Shariah Advisory Council of Bank Negara Malaysia and CEO of Amanie Business Solutions)

The Q&A was conducted with Mona Mohd Noor, head of debt capital markets, at Kenanga Investment Bank:

1. **Why did you use this particular Islamic structure? What other structures were considered?**
   The Commodity Murabahah structure was used to provide the Issuer with flexibility in terms of amount and tenure of the Issue. A Musharakah structure was considered but there were certain Shariah requirements which were not feasible for compliance by the issuer as contracts/agreements for the project being financed were already executed. The Sukuk Murabahah was intended to provide financing for an ongoing project.

2. What will this capital be used for?
   The proceeds from the issuance of the Sukuk Murabahah were utilized for payments to contractors and repayment of existing borrowings in relation to phase 1 of Kota Iskandar development (formerly known as the Johor State New Administrative Centre).

3. What were the challenges faced and how were they resolved?
   The challenge arose from having to find a balance between satisfying fixed parameters of the Sukuk's ultimate sole paymaster such as the state government and requirements for rating, accounting treatment and tax, and the marketability for the issue. The resultant financing structure provided for the highest long term rating for a debt based Sukuk, issuer's compliance with the relevant accounting and tax rules and worked within the parameters of the state government.

4. Geographically speaking, where did the investors come from?
   The investors are based in Malaysia and are local funds.

5. Was this deal rated?
   Yes. The deal was rated ' AAA' by RAM Rating Services. RAM took into account the creditworthiness of the sole counterparty, and structural features of the deal and governing documents which mitigated the risks of adequacy and timing of payments under the Sukuk.

UBS

HONG KONG: UBS has appointed Alex Wilmot-Sitwell as co-chairman and co-CEO for the Asia Pacific region in Hong Kong, effective on the 1st November.

He will lead the region with Chi-Won Yoon, current chairman and CEO of Asia Pacific. Sitwell is currently the co-CEO of UBS in the UK.

VTB CAPITAL

RUSSIA: VTB Capital has appointed Vladimir Androsik as head of investment management and general director of VTB Capital Investment Management. Androsik will be responsible for the strategic development of this division.

VTB Capital provides Islamic banking products and services in Russia and The Commonwealth of Independent States.

Prior to this appointment, he was the financial director at Rostelecom.

MORGAN STANLEY

US: Morgan Stanley has appointed Eric Grossman as its global head of legal operations.

Grossman will oversee the firm's law and litigation activities.

He was previously the global head of litigation and general counsel at Morgan Stanley Smith Barney.

MASHREQBANK

QATAR: Niranjan Mendonca has been appointed by Mashreqbank as the new head of retail banking based in Qatar. Mendonca will be in charge for the development and growth of Mashreqbank's retail banking business.

NATIONAL BANK FOR DEVELOPMENT

EGYPT: Abu Dhabi Islamic Bank (ADIB) has appointed Asim Basharullah as the head of wholesale banking at National Bank for Development responsible for the strategic growth and development of ADIB's wholesale business and franchise in Egypt.

He is also in charge for developing and managing the bank's full scale corporate and investment banking, and leasing business. Prior to this, Asim was head of corporate and investment banking at Al Rajhi Bank Malaysia

FITCH GROUP

JAPAN: Fitch Group has appointed Keisuke Moriyama as senior director and co-head of financial institutions in Tokyo.

Moriyama will work with co-head Reiko Toritani.

He was previously the head of credit research and senior credit analyst at Nomura Securities.

DELOITTE

UK: Deloitte has appointed Heather Devine as the director of its business model optimization team. Devine was previously an international tax partner at Ernst & Young.

EVERSHEDS

UK: Legal firm Eversheds has appointed Terry O'Regan as senior associate for its international trade team.

O'Regan was previously the senior legal advisor with Kuwait Petroleum Corporation. Eversheds provides Islamic finance advisory service.

AVIVA INVESTORS

AUSTRALIA: Aviva Investors has appointed Peter Poulopoulos as business development manager for Victoria, South Australia and Tasmania.

Poulopoulos will support the growth of Aviva Investors in the Australian equities and listed property management

AJMAN BANK

UAE: Akram Khan has been appointed head of Ajman bank's corporate banking division.

Previously, Akram was the senior vice president and head of wholesale corporate banking at Dubai Islamic Bank.

MORGAN STANLEY

US: Morgan Stanley has appointed Pavlos Bailas as head of its private wealth management unit in the Middle East, Europe and African region.

He will join its international wealth management executive committee and EMEA operating committee.

ZURICH ALTERNATIVE ASSET MANAGEMENT

SWITZERLAND: Zurich Financial Services (Zurich) has appointed Bernard Joei as the CEO of Zurich Alternative Asset Management.

Joei will be responsible for managing Zurich's existing alternative investment portfolios.

He was the chief investment officer and partner for Horizon21.

Zurich Alternative Asset Management is a subsidiary of Zurich Financial Services, which owns Zurich Takaful Company in the UAE.

CLIFFORD CHANCE

UK: Clifford Chance has appointed Karim Klaus Emara as its global head of business development and marketing based in the UK effective December.

Emara will join from Deutsche Bank, where he is currently a managing director and head of client marketing in the global banking division.

CONYERS DILL & PEARMAN

GLOBAL: Conyers Dill & Pearman has hired four lawyers to its UK, Hong Kong, Cayman Islands and Bermuda offices.

The lawyers are — UK based Veronica Strande who specializes in capital markets, Islamic finance, restructuring and corporate matters; Junko Shiokawa, an investment funds and corporate associate in Hong Kong; Gene DaCosta, who will advise on asset financing and funds transactions in the Caymans Islands; and Sophia Greaves, who will practise corporate law in Bermuda.

HSBC

UK: HSBC has appointed Gary Cross as the new head of trade and supply chain for its corporate banking team.

Cross will be responsible for the international trade services at HSBC.

Prior to his appointment, he was the senior manager, international trade services at ASB Bank.

BARCLAYS

GLOBAL: Barclays has appointed Ashok Vaswani as chief executive for Barclays Africa and Deanna Oppenheimer as chief executive for Western Europe retail banking. Oppenheimer will continue her current role as chief executive of UK retail banking.

Barclays wealth management unit has also appointed Brian Sears as managing director and regional manager for Los Angeles.

CLYDE & CO

UAE: Law firm Clyde & Co has appointed Rebecca Kelly as a partner. She specializes in regulatory compliance and dispute resolution.

Prior to this, Kelly was the head of UAE law regulatory practice in at DLA Piper (Middle East).

DEUTSCHE BANK

GLOBAL: Deutsche Bank has appointed Kaushik Shaparia as managing director, regional head of trade finance and cash management corporates, Asia Pacific.

The bank also appointed Sander Stuijt as director in Germany to expand its structured commodity trade finance team.

Prior to this appointment, Shaparia headed Deutsche Bank's global transaction banking operations in India while Stuijt headed the commodity finance unit at The Royal Bank of Scotland.

SHARIAH CAPITAL

UAE: Shaykh Yusuf Talal DeLorenzo, chief Shariah officer and board member of Shariah Capital, has relocated to its office in Dubai to lead the company's operations in the Gulf.

Shaykh Yusuf has also been named as the general manager of Dubai Shariah Asset Management, Shariah Capital's joint venture company with Dubai Commodity Asset Management.

Shariah Capital is a US based company that creates and customizes Shariah compliant financial products and platforms.

SOCIETE GENERALE

SINGAPORE: Steven Lim joins Societe Generale private banking as CEO of its Singapore public trust firm SG Trust (Asia).

Lim has over 23 years practice in the financial, trust, and wealth management field in the region.

THE STOCK EXCHANGE OF THAILAND

THAILAND: The Stock Exchange of Thailand (SET) has appointed Pakorn Peetathawatchai as the chief marketing officer effective the 1st October 2010. He will oversee the business and development of equities, bonds, derivatives, and other new products with high potential revenue.

SET has also hired Bordin Unakul as executive vice president, post-trade services and development effective the 1st November 2010.

BARCLAYS WEALTH

US: Barclays Wealth has named seven new members as part of its expansion plans in the Americas.

The hires are Brian Sears — managing director and regional manager for Los Angeles; Ron Willis and John-Paul Tomassetti — directors and investment representatives for New York; Tony Esses — director and investment representative for Miami; and René Joliot, Edgar Ramirez and Romel Rodriguez — investment representatives.

JPMORGAN CHASE

PHILIPPINES: JPMorgan Chase has appointed Karen Batungbacal De Venecia as senior country operations officer.

Previously, Batungbacal De Venecia was president of ICT Group Philippines.

ASIAN FINANCE BANK

MALAYSIA: An Asian Finance Bank official informed Islamic Finance *news* that Wan Anuar Abu Kasim chief operating officer resigned on the 1st October.

Wan Anuar was not available for comment.

Prior to joining Asian Finance Bank on the 12th May 2009, Wan Anuar was with Affin Bank in senior management positions including the head of Islamic banking division, chief credit officer and chief internal auditor.

Deal tracker

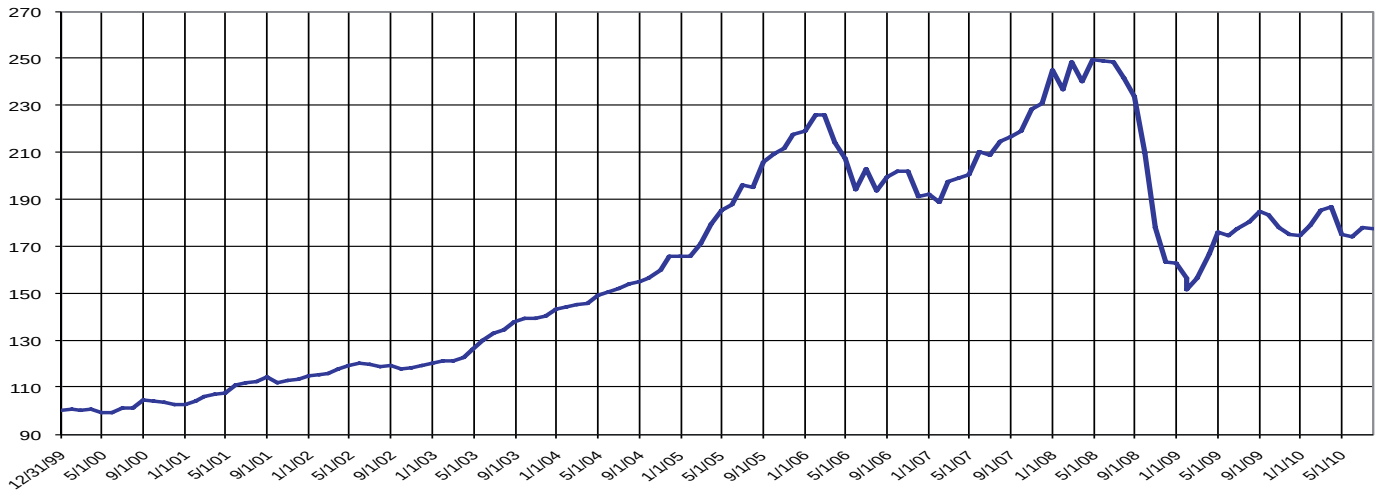
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE	INSTRUMENT
Senai-Desaru Expressway	TBA	Sukuk
Al Rajhi Group	TBA	Sukuk
Islamic Development Bank	US$3.5 billion	Sukuk
Al Rajhi Banking Group	TBA	Sukuk
Malaysia Debt Ventures	RM$500 million	Sukuk
Cagamas	TBA	Sukuk
Sudan	US$300 million	Sukuk
Indonesia	IDR2 trillion	Sukuk
Kuveyt Turk Participation Bank	US$100 million	Sukuk
Finance ministry, Indonesia	US$650 million	Sukuk
Al Baraka Turkey	US$250 million	Sukuk
Al Baraka Banking Group	US$200 million	Sukuk
Asosiasi Baitul Maal wa Tamwil (BMT) se-Indonesia	TBA	Sukuk
Konsortium Lebuhraya Utara-Timur (Kesturi)	RM35 million	Sukuk
South Korea	TBA	Sukuk
Capital Development Authority, Pakistan	PKR20 billion	Sukuk
Bank Muamalat	US$100 million	Sukuk
Abu Dhabi Ports Company	US$1 billion	Sukuk
Saudi Electricity Company	TBA	Sukuk
Kazakhstan	US$300 million	Sukuk
Abu Dhabi Islamic Bank	US$5 billion	Sukuk
Cagamas	US$5 billion	Sukuk
AmIslamic Bank	RM3 billion	Senior Sukuk Musharakah
Nakheel	TBA	Sukuk
Sumitomo Corporation	TBA	Sukuk
Nomura Holdings	US$100 million	Sukuk
State Bank of Pakistan	TBA	Sukuk
Islamic Bank of Thailand	THB5 billion	Sukuk
Trans Thai Malaysia	TBA	Sukuk
Lebanon	TBA	Sukuk
Emirates Integrated Telecommunications	TBA	Sukuk

For more details and the full list of deals visit
www.islamicfinancenews.com

Eurekahedge Middle East/Africa Islamic Fund Index



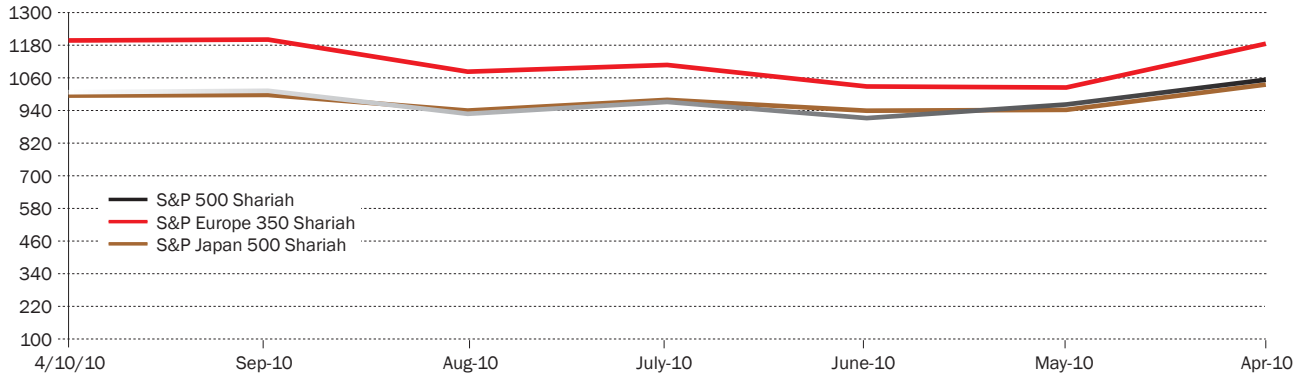
Monthly returns for Asia Pacific funds (as of the 4th October 2010)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	Mega Dana Syariah	Mega Capital Indonesia	8.61	Indonesia
2	CIMB Islamic Asia Pacific Equity	UOB Asset Management	7.87	Malaysia
3	CIMB Islamic Small Cap	CIMB-Principal Asset Management	6.14	Malaysia
4	CIMB Islamic Equity	CIMB-Principal Asset Management	5.89	Malaysia
5	CIMB Islamic Kausar Lifecycle Fund 2022	CIMB-Principal Asset Management	5.72	Malaysia
6	Public Islamic Sector Select	Public Mutual	5.66	Malaysia
7	Public China Ittikal	Public Mutual	5.35	Malaysia
8	Public Ittikal	Public Mutual	5.26	Malaysia
9	CIMB Islamic Kausar Lifecycle 2027	CIMB-Principal Asset Management	5.16	Malaysia
10	Public Islamic Select Treasures	Public Mutual	4.77	Malaysia
	Eurekahedge Asia Pacific Islamic Fund Index*		**2.74**	

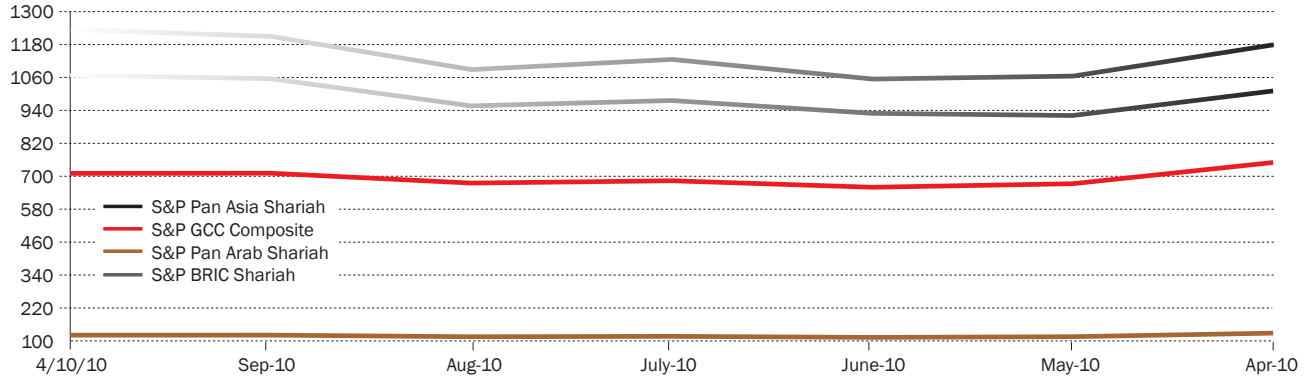
Monthly returns for Middle East/Africa funds (as of the 4th October 2010)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	Banque Misr No. 4	HC Securities & Investment	5.76	Egypt
2	Islamic Certificate on the LLB Top 20 Middle East TR Index (EUR)	ABN AMRO Bank	5.06	Netherlands
3	Tharwa Islamic	Tharwa Investment Company	4.95	Kuwait
4	Islamic Absolute Return Certificate on HFR Emirates	ABN AMRO Bank	3.15	Not disclosed
5	Egyptian Saudi Finance Bank Mutual	Hermes Management	2.68	Egypt
6	Faisal Islamic Bank of Egypt Mutual	Hermes Management	2.68	Egypt
7	Al Dar Securities	ADAM	2.35	Kuwait
8	Aman Fund - CIB & Faisal Islamic Bank Mutual	Commercial International Asset Management	1.86	Egypt
9	Al Safwa Investment	National Investments Company	1.72	Kuwait
10	Al-Durra Islamic	Global Investment House	1.69	Kuwait
	Eurekahedge Middle East/Africa Islamic Fund Index*		**-0.51**	

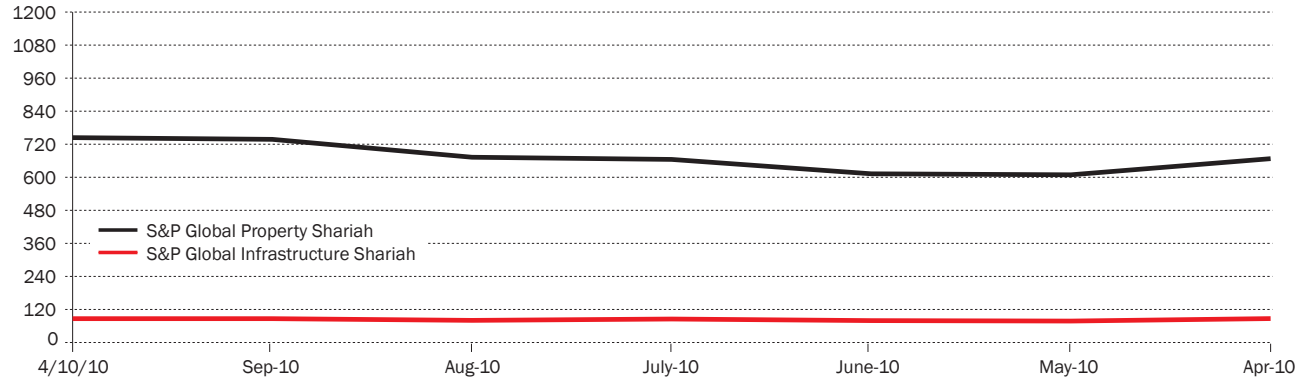
S&P Shariah Indices Price Index Levels



Index Code	Index Name	4/10/10	Sep-10	Aug-10	July-10	June-10	May-10	Apr-10
SPSHX	S&P 500 Shariah	1007.257	1012.387	927.814	971.473	912.024	962.089	1053.050
SPSHEU	S&P Europe 350 Shariah	1197.470	1200.681	1082.714	1107.409	1028.288	1042.504	1185.474
SPSHJU	S&P Japan 500 Shariah	994.864	997.313	939.684	979.104	939.209	942.416	1035.333



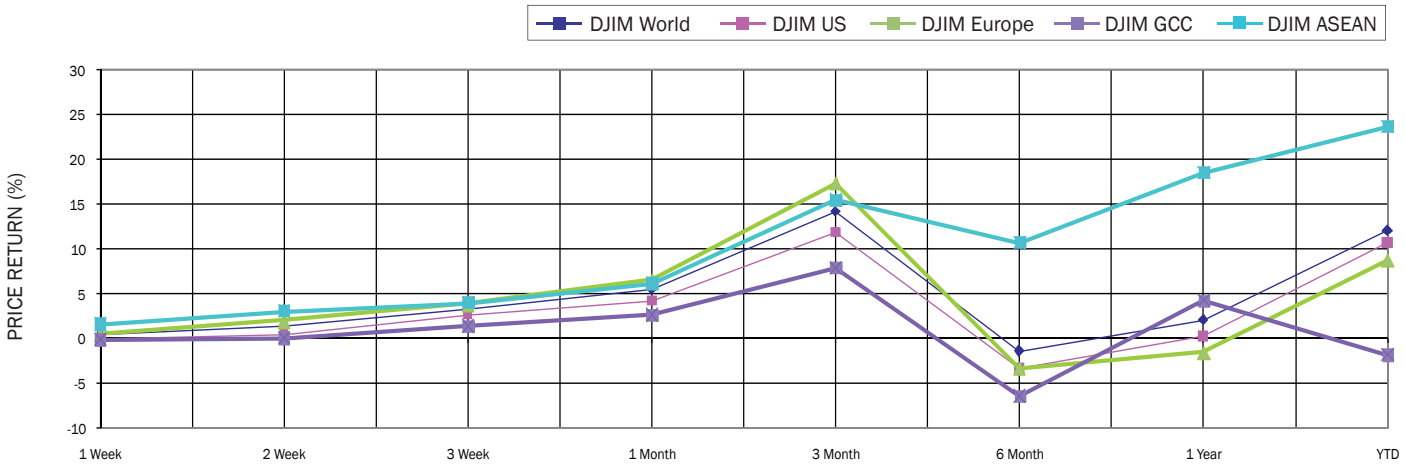
Index Code	Index Name	4/10/10	Sep-10	Aug-10	July-10	June-10	May-10	Apr-10
SPSHAS	S&P Pan Asia Shariah	1067.879	1055.516	956.455	976.003	929.342	921.335	1010.900
SPSHG	S&P GCC Composite Shariah	710.512	711.722	675.181	683.611	659.910	672.795	750.159
SPSHPA	S&P Pan Arab Shariah	121.028	121.100	115.090	116.617	112.797	115.358	128.364
SPSHBR	S&P BRIC Shariah	1238.937	1213.917	1093.125	1130.118	1058.653	1069.475	1183.561



Index Code	Index Name	4/10/10	Sep-10	Aug-10	July-10	June-10	May-10	Apr-10
SPSHGU	S&P Global Property Shariah	743.933	737.706	672.740	664.799	612.598	608.951	667.560
SPSHIF	S&P Global Infrastructure Shariah	86.545	86.530	80.314	85.243	79.474	77.860	86.827

Data as of the 4th October 2010

PERFORMANCE OF DJ INDEXES



INDEX	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	0.42	1.42	3.27	5.40	14.13	-1.47	1.97	11.96
DJIM US	-0.20	0.37	2.58	4.14	11.82	-3.35	0.15	10.59
DJIM Europe	0.31	1.84	3.70	6.38	17.28	-3.36	-1.73	8.66
DJIM GCC	-0.16	-0.02	1.31	2.54	7.84	-6.46	4.16	-1.89
DJIM ASEAN	1.54	2.99	3.93	6.06	15.35	10.65	18.45	23.62

*all performance is cumulative, based on price return and US$

DESCRIPTIVE STATISTICS	Market Capitalization (US$ billion)							Component Weight (%)	
INDEX	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Large	Small
DJIM World	2373	15798.18	12239.34	5.16	1.08	317.63	0.01	2.60	0.00
DJIM US	586	6513.54	6118.62	10.44	2.69	317.63	0.14	5.19	0.00
DJIM Europe	258	2970.85	2344.82	9.09	2.38	139.60	0.24	5.95	0.01
DJIM GCC	112	205.19	87.06	0.78	0.31	9.84	0.03	11.31	0.03
DJIM MENA	157	365.38	106.56	0.68	0.20	12.65	0.02	11.87	0.02
DJIM ASEAN	221	436.81	175.37	0.79	0.16	16.95	0.00	9.67	0.00
DJIM Titans 100	100	6675.91	5892.44	58.92	39.88	317.63	12.89	5.39	0.22
DJIM Asia/Pacific Titans 25	25	1097.60	717.57	28.70	22.39	73.32	12.89	10.22	1.80

For more information, please visit **www.djislamicmarkets.com** or contact

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Dow Jones Indexes
A CME Group Company

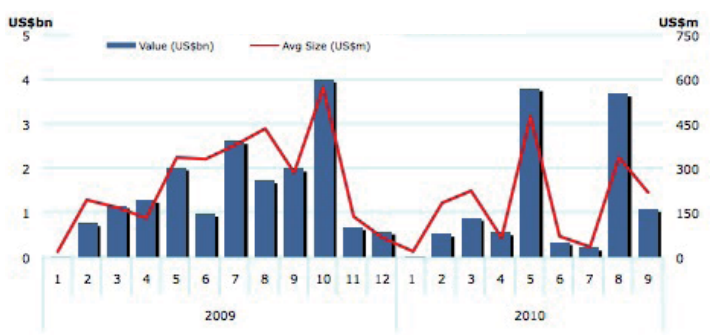
TOP 30 ISSUERS OF ISLAMIC BONDS *12 Months*

	Issuer	Nationality	Instrument	Market	Amt US$	Iss	%	Managers
1	Government of Dubai	United Arab Emirates	Sukuk	Euro market public issue	1,931,000,000	1	11.6	Standard Chartered, UBS, National Bank of Abu Dhabi, Dubai Islamic Bank, Bahrain Islamic Bank, Mitsubishi UFJ Financial Group, Emirates NBD, Al Hilal Bank
2	Saudi Electricity	Saudi Arabia	Sukuk	Domestic market public issue	1,866,000,000	1	11.2	HSBC, Samba Capital
3	Danga Capital	Malaysia	Sukuk Musharakah	Domestic market public issue; Foreign market private placement	1,700,000,000	2	10.2	Standard Chartered, HSBC, OCBC, RHB Capital, CIMB, DBS
4	Celcom Transmission (M)	Malaysia	Sukuk	Domestic market public issue	1,329,000,000	1	8.0	CIMB, Maybank Investment Bank
5	Cagamas	Malaysia	Sukuk Murabahah	Domestic market private placement; Domestic market private placement	1,269,000,000	10	7.6	CIMB, Maybank Investment Bank, HSBC, Cagamas, AmInvestment, RBS, RHB Capital, Al-Rajhi Banking & Investment, Standard Chartered
6	1Malaysia Sukuk Global	Malaysia	Sukuk Ijarah	Euro market public issue	1,250,000,000	1	7.5	HSBC, Barclays Capital, CIMB
7	TDIC Sukuk	UAE	Sukuk Ijarah	Euro market public issue	1,000,000,000	1	6.0	Standard Chartered, HSBC, Abu Dhabi Commercial Bank
8	Qatar Islamic Bank SAQ	Qatar	Sukuk.	Euro market public issue	750,000,000	1	4.5	HSBC, Credit Suisse, QInvest
9	Sime Darby	Malaysia	Sukuk Musharakah	Domestic market public issue	590,000,000	1	3.6	Public Bank, CIMB, Maybank Investment Bank
10	GE Capital Sukuk	US	Sukuk	Euro market public issue	498,000,000	1	3.0	Goldman Sachs, KFH, National Bank of Abu Dhabi, Citigroup
11	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk	Euro market public issue	446,000,000	1	2.7	Goldman Sachs, Deutsche Bank, Unicorn Investment Bank
12	Pengurusan Aset Air	Malaysia	Sukuk Ijarah	Domestic market private placement	341,000,000	1	2.1	CIMB
13	Malaysia Airports Capital	Malaysia	Sukuk Ijarah	Domestic market public issue	316,000,000	1	1.9	CIMB, Citigroup
14	Projek Lebuhraya Utara Selatan Bhd	Malaysia	Sukuk Musharakah	Domestic market private placement	301,000,000	1	1.8	CIMB
15	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	228,000,000	1	1.4	Standard Chartered, CIMB
16	Saudi Hollandi Bank	Saudi Arabia	Sukuk Mudarabah	Domestic market public issue	193,000,000	1	1.2	Saudi Hollandi Bank, Riyad Bank
17	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	177,000,000	1	1.1	AmInvestment
18	Maju Expressway	Malaysia	Sukuk Musharakah	Domestic market public issue	168,000,000	1	1.0	CIMB
19	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk	Domestic market public issue	167,000,000	1	1.0	RHB Capital, Maybank Investment Bank
20	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	161,000,000	1	1.0	CIMB, AmInvestment, Maybank Investment Bank
21	Malaysia Debt Ventures	Malaysia	SukukMurabahah	Domestic market public issue	158,000,000	1	1.0	Lembaga Tabung Haji, RHB Capital, CIMB
22	Bank Pembangunan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	153,000,000	1	0.9	HSBC, CIMB
23	National Bank of Abu Dhabi	UAE	Sukuk Murabahah	Foreign market public issue	153,000,000	1	0.9	HSBC, Maybank Investment Bank
24	Penerbangan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	148,000,000	2	0.9	Bank Muamalat Malaysia, CIMB
24	Padiberas Nasional	Malaysia	Sukuk Musharakah	Domestic market public issue	127,000,000	1	0.8	Standard Chartered, Bank Muamalat Malaysia
24	Nomura Sukuk	Japan	Sukuk Ijarah	Euro market public issue	100,000,000	1	0.6	KFH
27	Kuveyt Turk Katilim Bankasi	Kuwait	Sukuk Murabahah	Euro market public issue	100,000,000	1	0.6	KFH, Citigroup
28	International Finance	United States	Sukuk	Euro market public issue	100,000,000	1	0.6	HSBC, KFH, Dubai Islamic Bank, Liquidity Management Centre
29	Gamuda	Malaysia	Sukuk Musharakah	Domestic market private placement	97,000,000	1	0.6	CIMB, AmInvestment
30	Perusahaan Listrik Negara	Indonesia	Sukuk Ijarah	Domestic market public issue	87,000,000	2	0.5	(Persero) Danareksa Bahana, Securities Bank Mandiri, Trimegah Securities
	Total				**16,604,000,000**	**77**	**100.0**	

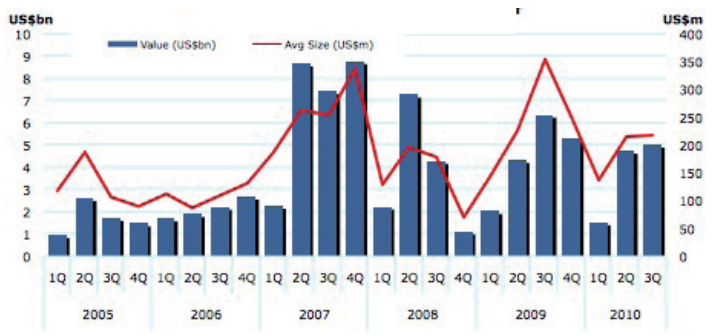
20 MOST RECENT GLOBAL ISLAMIC BONDS

Priced	Issuer	Nationality	Instrument	Market	Value US$	Managers
30th Sep 2010	Qatar Islamic Bank	Qatar	Sukuk.	Euro market public issue	750,000,000	HSBC, Credit Suisse, QInvest
21st Sep 2010	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	161,000,000	CIMB, AmInvestment, Maybank Investment Bank
15th Sep 2010	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	177,000,000	AmInvestment
30th Aug 2010	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk	Domestic market public issue	167,000,000	RHB Capital, Maybank Investment Bank
20th Aug 2010	Malaysia Airports Capital	Malaysia	Sukuk Ijarah	Domestic market public issue	316,000,000	CIMB, Citigroup
18th Aug 2010	Celcom Transmission (M)	Malaysia	Sukuk	Domestic market public issue	1,329,000,000	CIMB, Maybank Investment Bank
18th Aug 2010	Padiberas Nasional	Malaysia	Sukuk Musharakah	Domestic market public issue	127,000,000	Standard Chartered, Bank Muamalat Malaysia
16th Aug 2010	Malaysia Debt Ventures	Malaysia	Sukuk Murabahah	Domestic market public issue	158,000,000	Lembaga Tabung Haji, RHB Capital, CIMB
11th Aug 2010	Cagamas	Malaysia	Sukuk	Domestic market private placement	317,000,000	RBS, RHB, Capital, Al-Rajhi Banking & Investment
3rd Aug 2010	Danga Capital	Malaysia	Sukuk Wakalah	Foreign market private placement	1,089,000,000	OCBC, DBS, CIMB
22nd Jun 2010	National Bank of Abu Dhabi	United Arab Emirates	Sukuk Murabahah	Foreign market public issue	153,000,000	HSBC, Maybank Investment Bank
14th Jun 2010	Maju Expressway	Malaysia	Sukuk Musharakah	Domestic market public issue	168,000,000	CIMB
27th May 2010	1Malaysia Sukuk Global	Malaysia	Sukuk Ijarah	Euro market public issue	1,250,000,000	HSBC, Barclays Capital, CIMB
24th May 2010	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	Domestic market private placement	301,000,000	CIMB
10th May 2010	Saudi Electricity	Saudi Arabia	Sukuk	Domestic market public issue	1,866,000,000	HSBC, Samba Capital
7th May 2010	Cagamas	Malaysia	Sukuk	Domestic market private placement	314,000,000	AmInvestment
27th Apr 2010	Cagamas	Malaysia	Sukuk	Domestic market private placement	156,000,000	AmInvestment
1st Apr 2010	Bank Pembangunan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	153,000,000	HSBC, CIMB
31st Mar 2010	Danga Capital	Malaysia	Sukuk Wakalah	Foreign market private placement	612,000,000	Standard Chartered, HSBC, OCBC, RHB Capital, CIMB
10th Mar 2010	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	359,000,000	Standard Chartered, CIMB

GLOBAL ISLAMIC BOND VOLUME BY MONTH



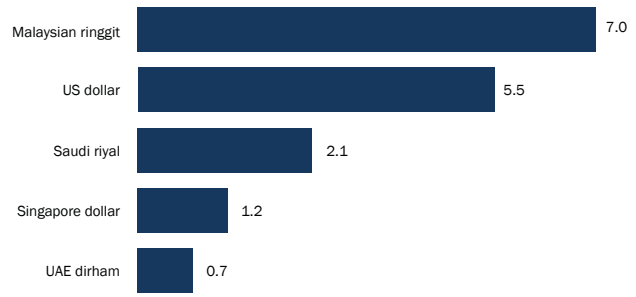
GLOBAL ISLAMIC BOND VOLUME BY QUARTER



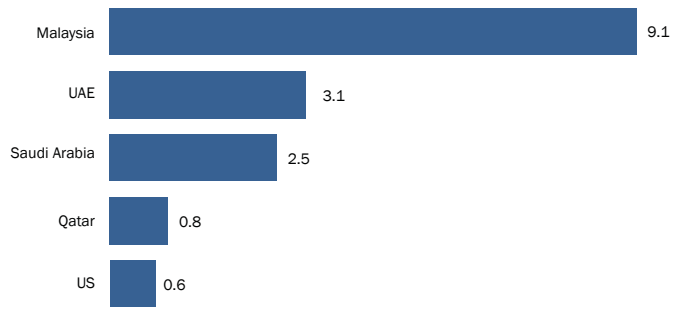
TOP 30 MANAGERS OF ISLAMIC BONDS *12 Months*

	Manager	Amt US$	Iss	%
1	CIMB	3,480,000,000	32	21.0
2	HSBC	2,307,000,000	12	13.9
3	Maybank Investment Bank	1,375,000,000	16	8.3
4	Standard Chartered	982,000,000	10	5.9
5	Samba Capital	933,000,000	1	5.6
6	AmInvestment	838,000,000	10	5.1
7	OCBC	500,000,000	3	3.0
8	Barclays Capital	417,000,000	1	2.5
9	RHB Capital	401,000,000	5	2.4
10	KFH	374,000,000	4	2.3
11	DBS	370,000,000	2	2.2
12	Abu Dhabi Commercial Bank	333,000,000	1	2.0
13	Dubai Islamic Bank	331,000,000	2	2.0
14	Mitsubishi UFJ Financial Group	324,000,000	2	2.0
15	Citigroup	308,000,000	3	1.9
16	UBS	306,000,000	1	1.8
16	Emirates NBD	306,000,000	1	1.8
18	QInvest	250,000,000	1	1.5
18	Credit Suisse	250,000,000	1	1.5
20	Goldman Sachs	248,000,000	2	1.5
21	Bahrain Islamic Bank	208,000,000	1	1.3
22	National Bank of Abu Dhabi	197,000,000	2	1.2
23	Public Bank	197,000,000	1	1.2
24	Unicorn Investment Bank	149,000,000	1	0.9
24	Deutsche Bank	149,000,000	1	0.9
26	Bank Muamalat Malaysia	148,000,000	3	0.9
27	RBS	106,000,000	1	0.6
27	Al-Rajhi Banking & Investment	106,000,000	1	0.6
29	Cagamas	101,000,000	1	0.6
30	Al Hilal Bank	97,000,000	1	0.6
	Total	**16,604,000,000**	**77**	**100**

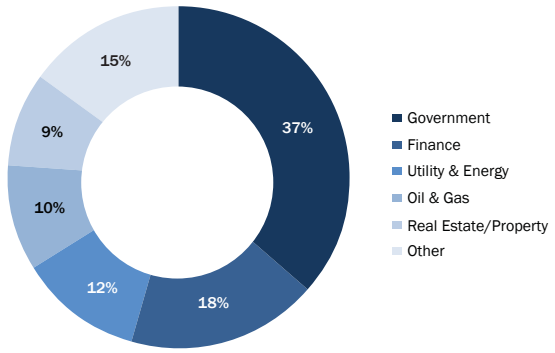
ISLAMIC BOND VOLUME BY CURRENCY US$ (BILLION)



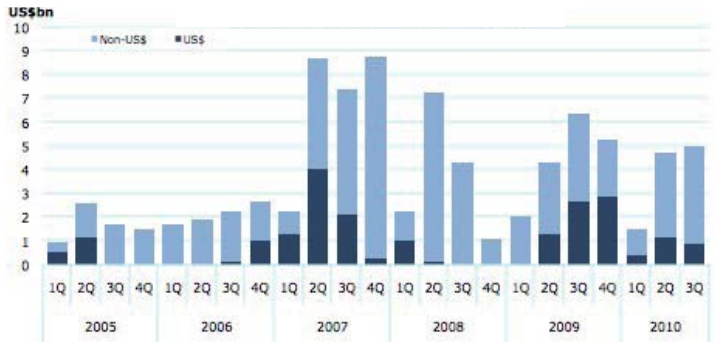
ISLAMIC BOND VOLUME BY ISSUER NATION US$ (BILLION) - *12 Months*



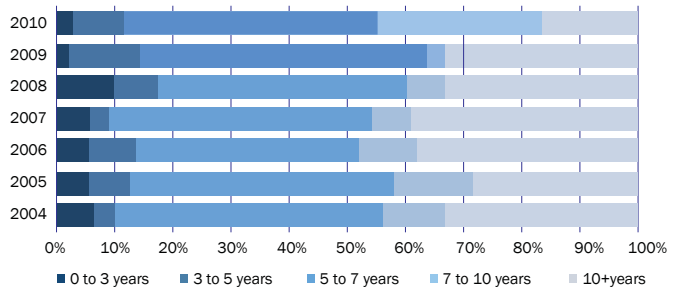
GLOBAL ISLAMIC BOND VOLUME BY SECTOR - *12 Months*



GLOBAL ISLAMIC BOND VOLUME - US$ ANALYSIS



GLOBAL ISLAMIC LOANS - YEARS TO MATURITY *(YTD Comparison)*



ALL DATA AS OF THE 4th OCTOBER 2010

SUKUK MANAGERS (12 months) SEP 2009 – SEP 2010

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	21,787,696,700	97	56.4
2	CIMB	5,016,367,054	84	13.0
3	Malayan Banking	1,641,528,275	94	4.2
4	RHB Banking Group	1,023,871,460	36	2.6
5	HSBC Banking Group	981,534,697	39	2.5
6	AMMB Holdings	930,611,548	59	2.4
7	Malaysian Industrial Development Finance	918,699,505	202	2.4
8	Standard Chartered	727,331,469	13	1.9
9	Dubai Islamic Bank	602,646,875	3	1.6
10=	Mitsubishi UFJ Financial Group	482,646,875	2	1.2
10=	UBS	482,646,875	2	1.2
12	Cagamas	469,142,626	32	1.2
13	Barclays Bank	412,500,000	1	1.1
14	Indonesia (Government)	242,558,020	14	0.6
15	Affin Holdings	202,057,585	19	0.5
16	Bukhary Capital	176,990,490	4	0.5
17	OCBC Bank	173,051,507	20	0.4
18	OSK Holdings	171,388,669	22	0.4
19	EON Capital	170,394,050	70	0.4
20	Unicorn Investment Bank	148,500,000	1	0.4

SUKUK MANAGERS (3 months) JUNE 2010 - SEP 2010

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	7,019,805,100	28	63.7
2	CIMB	1,872,992,927	19	17.0
3	RHB Banking Group	433,247,315	9	3.9
4	Malayan Banking	369,548,042	25	3.4
5	AMMB Holdings	313,095,800	16	2.8
6	Malaysian Industrial Development Finance	260,110,550	50	2.4
7	Cagamas	181,199,696	8	1.6
8	Bukhary Capital	128,928,400	1	1.2
9	HSBC Banking Group	74,861,092	9	0.7
10	OSK Holdings	52,253,980	7	0.5
11=	Citigroup	50,000,000	1	0.5
11=	Kuwait Finance House	50,000,000	1	0.5
13	EON Capital	48,452,665	13	0.4
14	Affin Holdings	47,454,810	4	0.4
15	Hong Leong Financial Group	22,239,840	2	0.2
16	United Overseas Bank	17,748,805	2	0.2
17	Public Bank	11,035,195	3	0.1
18	Standard Chartered	8,859,538	1	0.1
19=	Trimegah Securities	5,530,950	2	0.1
19=	Asia Sukses Mandiri Sejati	5,530,950	2	0.1

SUKUK ISSUERS (12 months) SEP 2009 – SEP 2010

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	15,151,109,600	72	36.0
2	Malaysia (Government)	6,399,875,800	25	15.2
3	Bank Indonesia	2,728,387,708	36	6.5
4	Perusahaan Penerbit SBSN Indonesia	2,232,327,003	10	5.3
5	Dubai DOF Sukuk	1,930,587,500	2	4.6
6	Cagamas	1,649,054,340	33	3.9
7	Celcom Transmission (M)	1,342,937,400	4	3.2
8	Pengurusan Air SPV	1,173,293,540	5	2.8
9	TDIC Sukuk	1,000,000,000	1	2.4
10	ESSO Malaysia	677,580,710	12	1.6
11	Danga Capital	621,408,000	1	1.5
12	Sime Darby	594,088,000	3	1.4
13	Dar Al-Arkan International Sukuk	450,000,000	1	1.1
14	Khazanah Nasional	367,252,800	1	0.9
15	Malakoff	331,466,000	2	0.8
16	Malaysia Airports Capital	319,747,000	1	0.8
17	Projek Lebuhraya Utara-Selatan	303,767,000	1	0.7
18	Hytex Integrated	267,301,506	41	0.6
19	Hubline	199,359,785	17	0.5
20	Saudi Hollandi Bank	193,328,500	1	0.5

SUKUK ISSUERS (3 months) JUNE 2010 - SEP 2010

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	6,118,326,300	24	52.3
2	Celcom Transmission (M)	1,342,937,400	4	11.5
3	Malaysia (Government)	1,057,509,300	5	9.0
4	Cagamas	405,308,830	8	3.5
5	Malaysia Airports Capital	319,747,000	1	2.7
6	Perusahaan Penerbit SBSN Indonesia	319,528,745	1	2.7
7	Pengurusan Air SPV	222,575,500	1	1.9
8	Amislamic Bank	177,190,750	1	1.5
9	Pelabuhan Tanjung Pelepas	169,218,525	1	1.4
10	MISC	161,681,500	2	1.4
11	Malaysia Debt Ventures	159,124,000	2	1.4
12	ESSO Malaysia	135,195,110	4	1.2
13	Padiberas Nasional	128,928,400	1	1.1
14	Bank Indonesia	101,475,345	4	0.9
15	KT Turkey Sukuk	100,000,000	1	0.9
16	Hytex Integrated	76,857,220	13	0.7
17	Perusahaan Perseroan (Persero) Perusahaan Listrik Negara	55,309,500	2	0.5
18	Perbadanan Kemajuan Negeri Selangor	50,831,530	3	0.4
19	Hubline	47,454,810	4	0.4
20	MM Vitaoils	35,942,905	12	0.3

ALL DATA AS OF THE 4th OCTOBER 2010

LOAN MANDATED LEAD ARRANGERS SEP 2009 – SEP 2010

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1	HSBC	1,449,580,666.74	5,911,989,333.62	5	15.5
2	Qatar Islamic Bank	1,098,538,943.20	1,098,538,943.20	1	11.7
3	Standard Chartered	1,037,880,504.04	2,480,106,140.19	6	11.1
4	Samba Financial Group	775,994,779.87	4,464,817,559.88	4	8.3
5	Credit Agricole Corporate & Investment Bank	675,997,446.46	4,064,828,226.26	3	7.2
6	National Commercial Bank	631,193,862.18	3,975,221,057.68	3	6.7
7=	Saudi Hollandi Bank	499,583,333.33	3,712,000,000.00	2	5.3
7=	Arab Bank	499,583,333.33	3,712,000,000.00	2	5.3
9	WestLB	318,232,314.04	391,161,570.19	4	3.4
10	Alinma Bank	250,693,862.18	1,692,221,057.68	2	2.7
11	Noor Islamic Bank	242,981,523.33	728,944,570.00	3	2.6
12	Riyad Bank	219,080,666.74	1,828,989,333.62	2	2.3
13	Al Hilal Bank	197,500,999.35	409,001,998.69	2	2.1
14	Abu Dhabi Islamic Bank	183,500,999.35	367,001,998.69	1	2.0
15	Royal Bank of Scotland	175,000,000.00	525,000,000.00	2	1.9
16	Arab Banking	167,981,523.33	503,944,570.00	2	1.8
17	Masraf Al Rayan	126,666,666.67	460,000,000.00	2	1.4
18=	Bank Al-Jazira	119,083,333.33	1,429,000,000.00	1	1.3
18=	Saudi Investment Bank	119,083,333.33	1,429,000,000.00	1	1.3
18=	Islamic Development Bank	119,083,333.33	1,429,000,000.00	1	1.3
18=	Al Rajhi Banking & Investment	119,083,333.33	1,429,000,000.00	1	1.3
22	National Bank	99,997,333.40	399,989,333.62	1	1.1
23	Citigroup	40,000,000.00	40,000,000.00	1	0.4
24=	Bank Islam Malaysia	26,666,666.67	160,000,000.00	1	0.3
24=	Development Bank of Singapore	26,666,666.67	160,000,000.00	1	0.3
24=	Sumitomo Mitsui Financial Group	26,666,666.67	160,000,000.00	1	0.3
24=	Malayan Banking	26,666,666.67	160,000,000.00	1	0.3
28=	Kuwait Finance House	18,232,314.04	91,161,570.19	1	0.2
28=	Standard Bank	18,232,314.04	91,161,570.19	1	0.2
28=	Abu Dhabi Commercial Bank	18,232,314.04	91,161,570.19	1	0.2
31=	BNP Paribas	14,000,000.00	42,000,000.00	1	0.1

LOAN BOOKRUNNERS SEP 2009 – SEP 2010

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1	Qatar Islamic Bank	1,098,538,943.20	1,098,538,943.20	1	62.6%
2	WestLB	391,161,570.19	391,161,570.19	4	22.3%
3=	Standard Chartered Bank	75,000,000.00	225,000,000.00	1	4.3%
3=	Royal Bank of Scotland	75,000,000.00	225,000,000.00	1	4.3%
3=	Noor Islamic Bank	75,000,000.00	225,000,000.00	1	4.3%
6	Citigroup	40,000,000.00	40,000,000.00	1	2.3%

ISLAMIC LOANS RAISED (12 Months) SEP 2009 – SEP 2010

	Borrower	Country	Islamic Loan Amount (US$)
1	Power & Water Utility Co for Jubail & Yanbu	Saudi Arabia	2,283,000,000
2	Qatari Diar Real Estate Investment	Qatar	1,500,000,000
3	Saudi Aramco Total Refining & Petrochemical	Saudi Arabia	1,429,000,000
4	Qatari Diar Real Estate Investment	Qatar	1,098,538,943
5	Riyadh Independent Power Plant	Saudi Arabia	616,049,284
6	Etihad Etisalat	Saudi Arabia	399,989,334
7	Emirates Steel Industries	UAE	367,001,999
8	Qatari Diar Real Estate Investment	Qatar	300,000,000
9	Asya Katilim Bankasi	Turkey	253,944,570
10	Albaraka Turk Katilim Bankasi	Turkey	250,000,000
11	Dubai International Capital	UAE	225,000,000
12	Qatar Airways Co	Qatar	160,000,000
13	Gulf Finance House	Bahrain	100,000,000
14	Emirates Trading Agency	UAE	100,000,000
15	Gulf Finance House	Bahrain	100,000,000
16	Global Investment House	Kuwait	91,161,570
17	Al Jaber Aviation	UAE	42,000,000
18	Ozkan Demir Celik Sanayi	Turkey	40,000,000

ALL DATA AS OF THE 4th OCTOBER 2010

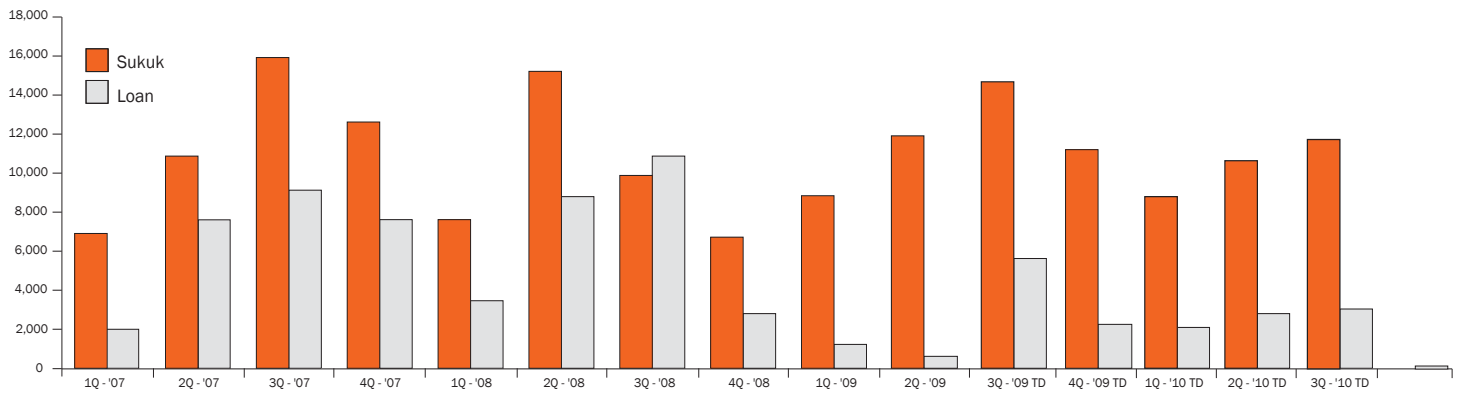
SUKUK BY COUNTRY	(12 Months)	SEP 2009 – SEP 2010
Country	Volume Issued	Volume Outstanding
Malaysia	32,947,524,482	21,330,676,470
Indonesia	5,174,764,730	2,547,852,367
Eurobond	3,030,587,500	3,030,587,500
US	575,000,000	575,000,000
Saudi Arabia	193,328,500	193,328,500
Singapore	92,728,884	92,728,884
Bahrain	68,956,720	53,041,600
Pakistan		
Cayman Islands	-	-
UAE	-	-
Jersey	-	-

LOANS BY COUNTRY	(12 Months)	SEP 2009 – SEP 2010
Country	Volume (US$)	Market Share (%)
Saudi Arabia	4,728,038,618	50.5
Qatar	3,058,538,943	32.7
UAE	734,001,999	7.8
Turkey	543,944,570	5.8
Bahrain	200,000,000	2.1
Kuwait	91,161,570	1.0

SUKUK BY INDUSTRY	(12 Months)	SEP 2009 – SEP 2010
Industry	Volume Issued	Volume Outstanding
Other financial	23,767,814,726	14,049,758,084
Sovereign	9,128,263,508	6,501,351,145
Agency	2,727,555,173	2,668,889,313
Manufacturing	2,124,095,454	1,356,770,012
Telephone	1,364,135,000	1,364,135,000
Energy company	751,086,245	94,903,455
Transportation	616,848,235	464,943,260
Banks	525,533,750	525,533,750
Service company	421,272,318	316,226,720
Electric power	418,970,597	243,146,597
Consumer goods	237,315,810	237,315,810

LOANS BY INDUSTRY	(12 Months)	SEP 2009 – SEP 2010
Industry	Volume (US$)	Market Share(%)
Real estate	2,898,538,943	31.0
Construction	2,383,000,000	25.5
Oil and gas	1,429,000,000	15.3
Financial services	1,020,106,140	10.9
Utilities	616,049,284	6.6
General manufacturing	407,001,999	4.4
Telecommunications	399,989,334	4.3
Transportation	160,000,000	1.7
Aerospace and defense	42,000,000	0.4

GLOBAL ISLAMIC VOLUME SUKUK/LOANS (US$ IN MILLIONS)



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FTSE Shariah Global Equity Index Series

The FTSE Shariah All-World Index in September finished the month in positive territory, up 10.2%, with Emerging markets outperforming Developed markets by 0.2% over the period. The best performing region in September was Developed Europe, with a performance of 12.5%, followed by Latin America with a performance of 11.3%. Finland was the best performing country with a performance of 19%, with Philippines being the second best performing country finishing the month on 17.7%. Both Pakistan and Malaysia were the worst performers in September with a performance of 1.3% and 3.7%, respectively.

Index	No. of constituents	Performance based on percentage (%)						
		1 Month	3 Months	6 Months	Year-to-Date	1 Year	3 Years	5 Years
FTSE SHARIAH GLOBAL EQUITY INDEX SERIES								
FTSE Shariah All World Index	1223	10.21	14.36	0.10	2.03	8.79	-13.13	25.30
FTSE Shariah ASEAN Index	60	7.48	17.13	13.71	19.64	23.15	4.22	105.41
FTSE Shariah Asia Pacific ex Japan Index	364	12.16	17.59	6.69	8.47	15.66	-6.76	87.82
FTSE Shariah Asia Pacific Index	595	10.17	13.55	2.42	5.94	9.52	-14.41	38.18
FTSE Shariah Dev Asia Pacific ex Japan Index	146	13.09	19.71	5.56	8.82	15.36	-4.59	99.79
FTSE Shariah Developed Asia Pacific Index	377	9.87	13.02	0.44	5.17	7.24	-16.64	24.41
FTSE Shariah Developed Europe Index	204	12.45	19.05	-0.23	-0.65	6.12	-18.47	25.59
FTSE Shariah Developed ex Japan Index	648	10.52	14.83	-0.18	1.36	8.74	-12.57	23.61
FTSE Shariah Developed ex US Index	619	10.94	16.19	0.24	1.82	6.98	-16.45	27.91
FTSE Shariah Developed Index	879	10.19	14.10	-0.53	1.41	7.93	-13.79	20.67
FTSE Shariah Emerging Index	344	10.35	16.21	4.68	6.46	15.07	-8.20	71.14
FTSE Shariah Europe Index	243	11.92	18.68	-0.34	-0.39	6.23	-19.58	24.15
FTSE Shariah Eurozone Index	108	14.04	17.31	-2.66	-5.17	-0.37	-25.40	22.28
FTSE Shariah Japan 100 Index	100	7.67	8.71	-3.76	0.37	1.74	-25.37	0.14
FTSE Shariah Latin America Index	48	11.26	18.02	0.28	3.77	16.42	7.25	121.20
FTSE Shariah Middle East & Africa Index	46	10.91	16.06	5.11	8.48	17.11	3.97	64.27
FTSE Shariah Multinational 150 Index	154	10.15	13.81	-2.40	-1.11	6.92	-13.26	23.54
FTSE Shariah North America Index	291	9.19	12.18	-0.89	1.30	9.05	-10.37	16.43
FTSE Shariah USA Index	260	9.41	12.04	-1.33	0.96	8.84	-10.84	14.14
FTSE BURSA MALAYSIA INDEX SERIES								
FTSE Bursa Malaysia EMAS Shariah Index	273	4.70	14.43	14.07	26.34	32.26	31.10	118.01
FTSE Bursa Malaysia Hijrah Shariah Index	30	3.79	14.03	13.50	21.82	28.64	33.66	132.76
FTSE DIFX SHARIAH INDEX SERIES								
FTSE DIFX Qatar 10 Shariah Index	10	5.40	10.10	5.48	11.25	8.35	18.84	-
FTSE DIFX Kuwait 15 Shariah Index	15	8.35	20.72	5.37	15.66	-11.87	-50.49	-
FTSE SGX SHARIAH INDEX SERIES								
FTSE SGX Asia Shariah 100 Index	100	9.45	12.99	1.03	3.88	7.26	-18.39	18.11
FTSE SET INDEX SERIES								
FTSE SET Shariah Index	63	12.94	27.84	27.84	39.14	40.97	28.39	109.84
TSEC TAIWAN INDEX SERIES								
TSEC Taiwan Shariah Index	59	9.96	17.39	6.32	3.14	11.84	-0.55	58.17

Source: FTSE Group, total return data in US$ as at 30 September 2010

EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
October			
4th – 7th	Islamic Finance World Africa 2010	Johannesburg	Terrappin
6th	IFN Roadshow Saudi Arabia	Saudi Arabia	REDmoney *events*
18th – 22nd	25th East Asian Insurance Congress	Bali, Indonesia	EAIC Organizing Committee
25th – 28th	Global Islamic Finance Forum 2010 (GIFF 2010)	Kuala Lumpur	REDmoney *events*
26th – 28th	IFN *Issuers & Investors* Asia Forum 2010	Kuala Lumpur	REDmoney *events*
November			
10th	IFN Roadshow Canada	Toronto	REDmoney *events*
10th – 11th	Middle East Life & Family Takaful Summit	Dubai	Asia Insurance Review
12th	IFN Roadshow UK	London	REDmoney *events*
15th	IFN Roadshow France	Paris	REDmoney *events*
22nd – 24th	The World Islamic Banking Conference	Bahrain	MEGA Events
December			
1st – 2nd	Annual Conference on Islamic Banking & Finance	Manama	AAOIFI
6th	IFN Roadshow Korea	Seoul	REDmoney *events*
8th	IFN Roadshow Japan	Tokyo	REDmoney *events*
8th – 9th	The Saudi Investor Window 2010	Riyadh	UCI International
13th	IFN Roadshow Brunei	Brunei	REDmoney *events*

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