

Listing & Regulating Sukuk in the UK

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- **FSA's approach to Islamic finance**
- **Listing Sukuk in the UK**
- **Sukuk- regulatory challenges**
- **UK Sovereign Sukuk**
- **Islamic capital market initiatives**

History



- **Since late 1980s, sizeable Murabaha transactions across the London Metal Exchange**
- **Introduction of Sharia-compliant products on small scale by Middle Eastern and Asian banks in London (eg Islamic mortgages)**
- **Development of Islamic windows by major Western banks – playing an important role in the markets then and now**
- **Retail and wholesale stand-alone Islamic banks and insurance firms established**
- **Middle Eastern issuers listing Sukuk in UK**

The UK Islamic finance market

- 4 wholesale banks
- 1 retail bank
- 20 Islamic ‘windows’
- 1 insurance (Takaful) firm
- 20 Sukuk listed on the LSE
- 1 Hedge Fund manager
- 9 Fund managers
- Strong legal and advisory capability

What is Changinggreater focus on:



- **Major firms**
- **Liquidity and stress testing as well as capital**
- **Valuation and off balance sheet risks**
- **Wider measures**
- **Internal changes**

What is not Changing



Reasons for the development of Sharia-compliant finance in the UK:

- **Worldwide growth in Islamic finance**
- **Government policies to combat social exclusion (1.8 mn Muslims in the UK)**
- **Bank of England/HM Treasury wish to reinforce London's position as a major international financial centre**
- **so Retail and Wholesale strands**

What is not changing



- FSA's Principle Based Approach/including Islamic finance
- Financial Services and Markets Act 2000 (diversity and innovation)
- Level playing field – equal not special treatment for Islamic firms and instruments
- **For Firms basic conditions have to be met, principally:**
 - Adequate financial resources
 - Sound management
 - Effective systems and controls
 - Credible Business Plan

Sukuk markets

- Global Sukuk market £40 billion
- GCC Surplus/Liquidity and rapid growth in Middle East / Far East
- Since mid-2006 20 Sukuk listed on the LSE (£10bn)
- London a primary market for Listing Sukuk
- Advantages of the London market – Skills, Innovation.

London-Sukuk listings



Issuer	Money raised (£m)	Date	Due Date
	5,767.46		
Central Bank of Bahrain	176.00	20/03/2008	20/03/2013
RAKIA Sukuk	158.00	10/12/2007	10/12/2012
JAFZ Sukuk Ltd	1,000.00	21/11/2007	27/11/2015
Dana Gas Ltd	500.00	02/11/2007	31/10/2012
Nig Sukuk	232.00	16/08/2007	16/08/2012
Qatar Alaqaria Sukuk Company	150.00	03/08/2007	03/08/2012
DP World Sukuk Limited Trust	750.00	03/07/2007	02/07/2017
GFH MTN drawdown	100.00	26/07/2007	26/07/2012
EIB Sukuk	176.00	13/06/2007	12/06/2007
URC Sukuk ktd	100.00	13/06/2007	13/06/2012
IIG Funding Limited	100.00	10/06/2007	10/07/2012
DIB SUKUK CO LTD	384.09	26/03/2007	22/03/2012
Al Dar Funding Ltd	1,295.67	09/03/2007	10/11/2011
ADIB Sukuk Company Ltd	417.72	31/12/2006	12/12/2011
SIB Sukuk Company	118.61	16/10/2006	12/10/2011
Tabreed 06 Financing Corporation	109.37	21/07/2006	20/07/2011
Issuance Programs:			
HSBC - HBME Sukuk company ltd	5,000	08/01/2008	08/01/2009
NIG Sukuk Programme	750	15/08/2007	15/08/2008
GFH Sukuk Programme	500	26/06/2007	26/06/2008

Listing Sukuk-choice of two markets



(1) Regulated Market

- Listed regulated market

(2) Professional Securities Market (PSM)

- Listed unregulated market

Conditions:

- Prepared in line with relevant rules
- Sufficiently flexible to accommodate Sukuk as focus on structure and underlying risks.
- No material regulatory concerns

Regulatory definition of Sukuk



- Regulatory classification geared towards conventional instruments
- No single or widely accepted definition of Sukuk
- Range complexity and increasing sophistication of structures – at least 15-20
- Shariah issues, HMT and FSA approach
- Other regulators similar issues e.g. Dubai
- Joint Consultation Paper

Regulatory Definition – Way Forward



- **Focus on economic substance rather than legal form i.e.c debt instrument**
- **Fit with EU Directives**
- **Consequences for Existing Legislation**
- **Balance**

FSA General Approach

- **Market led – potential demand?**
- **Standards (ISDA, IIFM), transparency**
- **Education**
- **International initiatives - IOSCO**

UK Sovereign Sukuk

- **HMT – Consultation since Autumn 2007, still continuing.**
- **Aim to promote London further as centre for Islamic finance**
- **Islamic Finance Experts Group, now sub – groups**
- **FSA Advisory role on regulatory issues, examining the options**

Recent FSA paper

- **‘Islamic finance in the UK: Regulation and Challenges’ (November 2007)**