

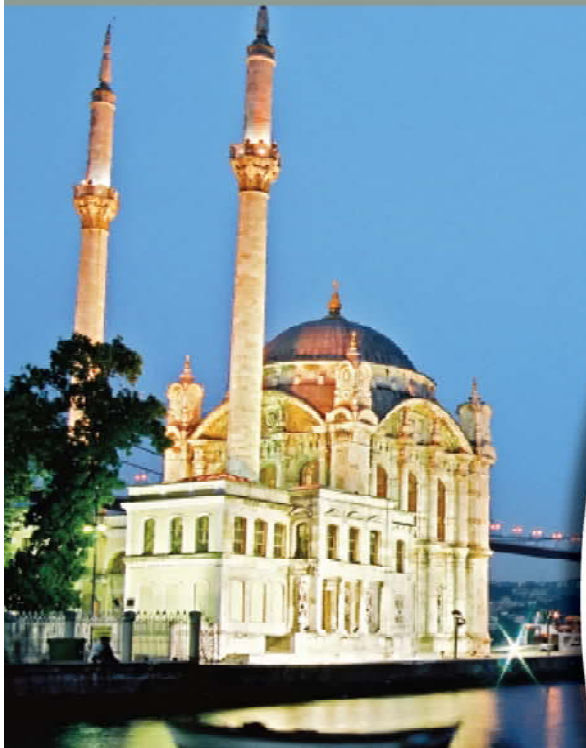
THE INTERNATIONAL



**ISLAMIC FINANCE  
FORUM**

*New Markets*

The Growth Imperative



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Taylor Wessing LLP,  
London

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# Contents

- 1. Historical Background**
- 2. The Rise of Islamic Finance in UK**
- 3. Various Islamic Finance Participants in the Retail Market**
- 4. Regulatory Approach**
- 5. The Rise of the Islamic Finance Commercial Market**
- 6. UK government's approach**
- 7. Legislative Changes – mainly tax**

## Historical Background

- UK experience dates back to the 1980s. Commodity Murabaha transactions through the London Metal Exchange were used to give liquidity to Middle Eastern institutions and investors.
- This led to the creation of the wholesale market.
- This did not, however, cater for the retail market.
- Retail products first appeared in the early 1990s on a limited scale.
- The pricing of these products was uncompetitive and they were not popular.
- They also fell outside the regulatory regime so consumers did not have much regulatory protection.
- Growth remained slow through the 1990s and early 2000s.

## Rise of Islamic Finance in UK

- A number of factors led to the sharp rise of Islamic Finance in the UK.
  - Global expansion of Islamic finance.
  - Increase in markets and skill base.
  - Excess liquidity in the Middle East as result of rising oil prices.
  - Positive UK government policy, regulatory and taxation approach.

## Various Islamic Finance Participants in the Retail Market

- **Financial Services Authority in the UK has authorised at least three wholly Islamic banks.**
- **Islamic Bank of Britain began operations in 2004 and by June 2007 had a balance sheet of around £140m.**
- **The Bank of London and Middle East was authorised in 2007 with a start up capital of £175.**
- **FSA has also authorised an Islamic Takaful operator and an Islamic hedge fund manager.**

## Regulatory Approach

- **FSA has a one stop approach to regulation.**
- **Level playing field for all market participants.**
- **Non discriminatory regime.**
- **FSA recognises the role of Shariah scholars as advisory.**
- **Financial promotion has to be “clear, fair and not misleading”.**
- **This is not in conflict with Shariah.**

## Rise of Islamic Finance in the Commercial Market

- Excess liquidity in the Middle East has expanded the universe of Islamic Finance.
- With the acquisition of stakes in UK companies by Middle Eastern investors, the demand to structure the financing arrangements for such companies in a Shariah compliant way is growing.
- Examples are Aston Martin, prime commercial real estate, Lotus Cars etc.
- Taylor Wessing has been advising many conventional banks and companies on structuring UK Commercial Property transactions in a Shariah compliant.
- This increases the universe of investors and many Shariah compliant funds have also been launched in the UK.

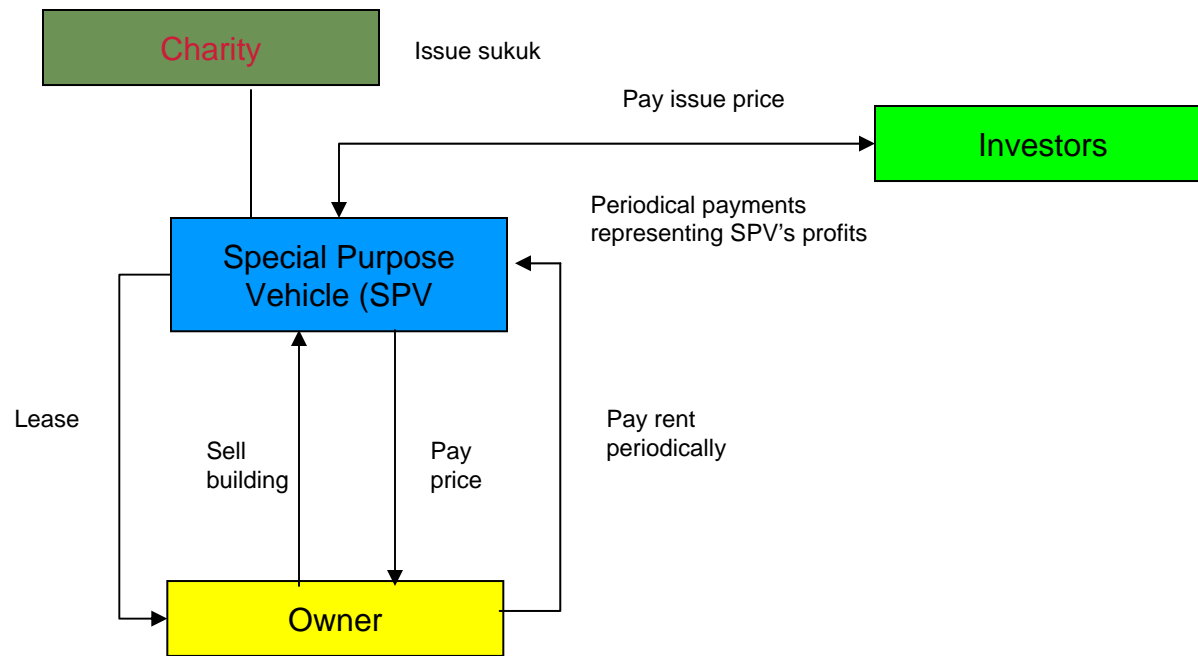
## UK Government's approach

- Financial inclusion – changes have been made to tax law to enable Muslims who object to the payment or receipt of interest to access Islamic personal financial services such as mortgages and savings accounts.
- UK Competitiveness – The City of London is very important to the UK economy. As Islamic finance grows internationally, the UK will benefit from cross border transactions being channelled through London, in the same way as the UK dominates the Eurobond market.

## Legislative changes – Mainly Tax

- **Stamp Duty Land Tax changes.**
- **Alternative Finance Investment Bond regime.**
- **Periodic payments treated as deductible interest.**

# Ijara Sukuk



## Conclusion

- **Fast developing market and significant scope for innovation.**
- **Interaction with global capital markets is and will continue to be significant.**
- **Bear in mind the limited take up of Islamic finance at the retail level because of the small Muslim population in UK. Questions about sustainability and approach.**
- **A continuing demand for good corporate governance and transparency and encouragement from bodies such as the IFSB and AAOIFI.**

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