

Islamic Venture Capital & Private Equity
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Country Presentation: JAPAN
Development of Islamic VC & PE investments

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The Islamic environment in Japan

■ Not large Muslim population:

Japan <0.1%, Korea <0.1%

S'pore 15%, M'sia 59%

■ No Islamic Bank in Japan:

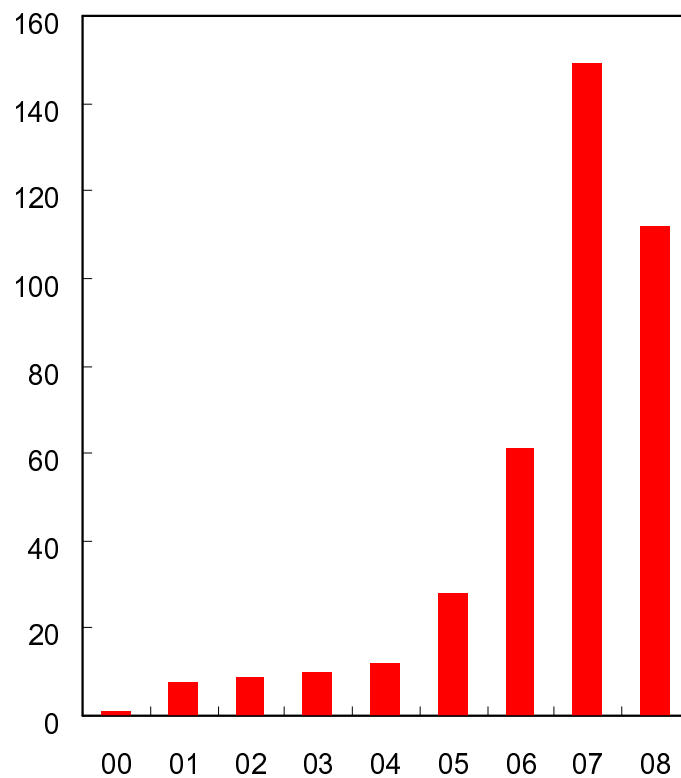
- 5 in UK, 1 in Singapore, 1 in Hong Kong

■ No Sukuk or Islamic product listed on Exchanges in Japan

- Daiwa Asset Management listed Islamic ETF (exchange-traded fund) on Singapore Exchange (SGX)

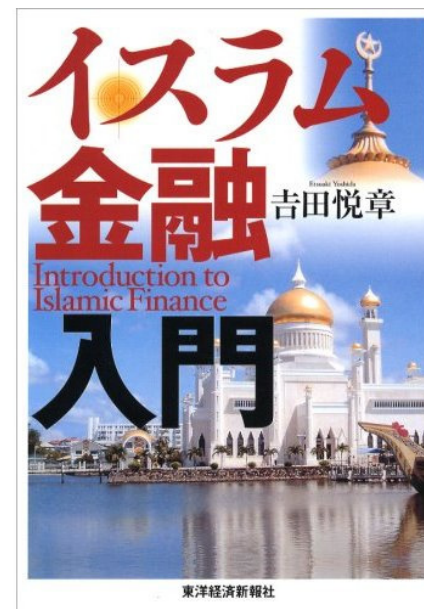
Growing interests in the nation

- No. of Nikkei articles related to Islamic Finance

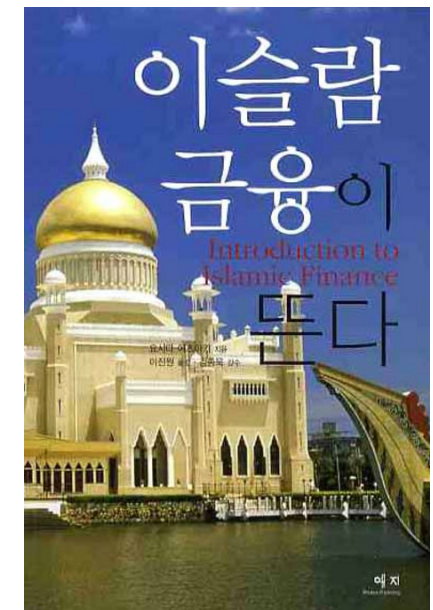


(Source) Nikkei Telecom

Japanese...



...translated into Korean



Interest is highest among non-muslim nations

■ No. of IFSB members: Breakdown by country

	Total	Full	Associate	Observer		Total	Full	Associate	Observer
Malaysia	27	2	3	22	Hong Kong	2		1	1
UAE	24	1	3	20	Lebanon	2		1	1
Sudan	16	1	1	14	Palestine	2		1	1
Bahrain	16	1		15	South Africa	2			2
Kuwait	14	1		13	USA	2			2
Saudi Arabia	10	2	1	7	UK	2			2
Qatar	9	1	1	7	Djibouti	1	1		
Japan	7			7	Indonesia	1	1		
Int'l Org.	5	1	4		Syria	1	1		
Pakistan	4	1	1	2	China	1		1	
Jordan	4	1		3	Mauritius	1		1	
Brunei	3	1		2	Philippines	1		1	
Egypt	3	1		2	Canada	1			1
Iran	3	1		2	Germany	1			1
Singapore	3	1		2	Korea	1			1
Turkey	3			3	Morocco	1			1
Maldives	2	1	1		Senegal	1			1
Bangladesh	2	1		1	TOTAL	178	21	21	136

(Source) IFSB *As of Nov. 2008

**Shaded countries are non-members of the Organization for the Islamic Conference.

History of Islamic Finance by Japanese firms

- In the earlier days, some transactions were seen in the Middle East and London:-
 - Japanese banks and trading companies raised funds in an Islamic manner out of London
 - Asset Managers sold Islamic Funds in late 90's to Middle Eastern investors (Nomura and DIAM)
- Japanese Forerunner: Tokio Marine (Takaful)
 - 2001 Saudi Arabia
 - 2004 Singapore (Retakaful) and Indonesia
 - 2006 Malaysia (Hong Leong Tokio Marine Takaful)
 - 2008 Egypt (License was given)

The recent change in the regulation

- Financial Services Agency (of Japan) amended the banking regulation in December 2008:
 - To admit a bank's subsidiary to get engaged in Islamic financial transactions
 - Murabahah / Ijarah-type of financing that involves asset trading is not permissible for Japanese banks under the current Banking Act.
 - The new regulation explicitly admits Islamic financial transactions by subsidiaries of Japanese banks under the following conditions:-
 - The financial transaction must be regarded as equal to financing, although it is not financing itself (because interests should not be charged due to the religious constraint).
 - The financial transaction must be Shariah compliant with approval by a Shariah board.

Points of the legal amendment

- Japanese banks' subsidiaries can provide Islamic financing.
 - Bank of Tokyo-Mitsubishi UFJ (Malaysia) and SMBC Europe have set up a team solely for Islamic deals.
- Japanese Banks can get involved in certain types of Islamic deals (regardless of the recent amendment).
- Japanese Securities Firms can get involved in Islamic financial transactions.
- Sukuk are still not clarified under the Japanese law
 - Bonds or trust beneficiary rights?
- No specific mention on Islamic VC &PE
 - VC & PE, including Islamic, can be done under the current regulations.

JBIC's Achievements

- Co-financing with Islamic tranches
 - Bapco(Bahrain, 2005), Petro Rabigh, (Saudi Arabia, 2006)
Ras Rafan C (Qatar, 2008)
- Established “Shariah Advisory Group” (2006)
- Study groups with private financial institutions (2006)
- First Japanese IFSB member (2007)
- Jointly Organized a seminar with IFSB (2007)
- Tied Memorandum of Understanding with BNM and IDB (2007)

JBIC's functions and VC & PE

■ 3 missions:

- 1) To secure natural resources
- 2) To strengthen int'l competitiveness of J firms
- 3) To cope with international financial disorder

■ Major types of financing

- Export / Import related
- Overseas investment related
- Untied Loans
- Investment \leq [VC & PE included; direct or thru funds]
 - “FACE”: Facility for Asia Cooperation and Environment

Economic thoughts of Islam and VC & PE

- VC & PE --- very Islamic : THE Islamic finance
 - VC & PE : to help a corporate with high potential
 - ...with taking risks (risk sharing and profit&loss sharing)
 - Islam welcomes those capital
 - Criticism against just debt-related Islamic financing (e.g. trade finance)
 - Technically, combination of debt and equity will be the key

An example of debt and equity investment

- Boubyan Global Real Estate Fund (of Kuwait), Atlas partners Japan, Hypo Real Estate Capital Japan collaborated for an Islamic real estate investment into Japan.

