

LEARNING FROM THE EXPERTS

Luxembourg receives a Master Class on how to set up an Islamic banking centre

A visit by representatives from the central bank of Malaysia (Bank Negara), the Securities Commission and the Malaysian stock exchange provided the opportunity to arrange a public debate with their Luxembourg counterparts. Jointly organised by Luxembourg for Finance and Luxembourg University, the objective of the seminar was to exchange views and enable practitioners and students in Luxembourg to learn from the country that has pioneered Islamic financial services and is setting the pace today. The overwhelming response from the public, which resulted in a last minute change of venue, is witness to the interest generated by this subject.

The first panel addressed institutional themes: what sort of legal, regulatory and supervisory system is required in order to operate a diversified Islamic financial centre? Shariffuddin Khalid of Bank Negara spoke

Germain Birgen, chairman of the LFF Islamic Finance Task Force



candidly about Malaysia's experience since the creation of the first shariah compliant savings facility in 1963 and the gradual development of the dual system that operates today.

The centre developed in five recognisable stages: the setting up of that first facility to enable Muslims to save up for the Hajj pilgrimage led to the creation of the first Islamic bank in the 1980s; then in 1993 conventional banks were allowed to open up an Islamic finance window; this in turn led to the central bank setting up the National Shariah Advisory Council as an apex authority on shariah matters. In a fourth stage, the central bank issued a series of benchmark sukuks (shariah compliant bonds) of different maturities in order to establish an interbank money market. The final stage saw banks spinning off their Islamic finance windows as subsidiaries with an independent board and brand name.

Guy Heintz, speaking for the Luxembourg tax authorities, was able to confirm that shariah compliant products such as murabaha and sukuk were at no disadvantage to conventional products in Luxembourg. This had been clarified by a Circular from the tax authorities.

The Luxembourg Central Bank, represented by Elie Flatter, stressed that as an independent entity its business was to ensure the soundness of the financial centre. It is the first central bank of a European Union country to become a Council Member of the IFSB. "This will allow the BCL to familiarise itself with the activities of Islamic

Nik Mohamed Din Nik Musa, Bank Negara Malaysia



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Luxembourg should play to its strengths in order to fill market gaps

Raja Teh Maimunah of the Bursa Malaysia



Shariffuddin Khalid, Director, MIFC Promotions Unit, Bank Negara Malaysia
 Nik Mohamed Din Nik Musa, Deputy Director, MIFC Promotions Unit, Bank Negara Malaysia
 Guy Heintz, Director of Tax Administration
 Christian Wolff, Director of the Luxembourg School of Finance (Moderator)
 Elie Flatter, Prudential Supervision Department – Liquidity Surveillance, Luxembourg Central Bank
 David Kinloch, CEO, Labuan IBFC

banks and their specific supervision requirements” he said, adding that the bank was undertaking study visits. He also takes a keen interest in the establishment of a liquid shariah compliant money market and is a member of the IFSB working group entrusted with the task of preparing Guiding Principles on Liquidity Risk Management: “We are identifying instruments, practices and solutions for managing liquidity in a shariah compliant manner”.

The Malaysian delegation stressed that shariah law should not be seen as a limiting factor but as an enabler. What the market needs, said Nik Mohamed Din Nik Musa of Bank Negara, is not more conventional banking products adapted to comply with shariah, but innovative products inspired by Islamic law. Here is an opportunity for research and product development.

Rounding off the regulatory debate, David Kinloch of the Labuan International Business and Financial Centre (IBFC) presented this offshore Malaysian territory and recommended their recent Islamic Financial Services Act as an example for any country that was planning a comprehensive piece of legislation in the matter.

Luxembourg should play to its strengths

The capital markets panel saw a debate between representatives of the stock exchanges and the supervisory authorities of the two countries and discussion centered around sukuk and the shariah compliant investment fund industry.

Luxembourg was the first European stock exchange to list a sukuk, a Malaysian sovereign issue in 2002, and a total 15 have since been listed; “which puts us on a par with London”, commented Hubert Grignon-Dumoulin of the Luxembourg stock exchange. In the investment fund area, Germain Birgen of HSBC Luxembourg and Chairman of the LFF Islamic Finance Task Force, pointed out that Luxembourg has the largest market share of a non-Muslim country, with 40 shariah compliant investment funds. However, in response to a question on how Luxembourg should best move forwards, Mrs Raja Teh Maimunah of the Bursa Malaysia commented that many of these funds were private equity and real estate funds. She advised Luxembourg to play to its strengths in order to fill market gaps: in particular, to encourage the development of shariah compliant UCITS. These are retail investment funds that can be sold throughout Europe and in dozens of markets worldwide.

Mrs Raja Teh challenged the Grand Duchy with another market opportunity: to create a money market in euro sukuk by making a series of benchmark issues. “Pricing is key to such an initiative”, she said, adding that it was difficult to place sukuk in GCC countries because they were used to yields “in the high ‘teens” on domestic issues.

The seminar ended with a cocktail and the Luxembourg contingent went home with much to think about.



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