



**RUSSIA — ISLAMIC WORLD
KAZANSUMMIT 2018**

10th International Economic Summit of Russia and OIC countries
MAY 10-12, 2018



**ISLAMIC FINANCE
BEYOND
THE OIC**

DEVELOPING NEW HUBS



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10th International Economic Summit of Russia and OIC countries

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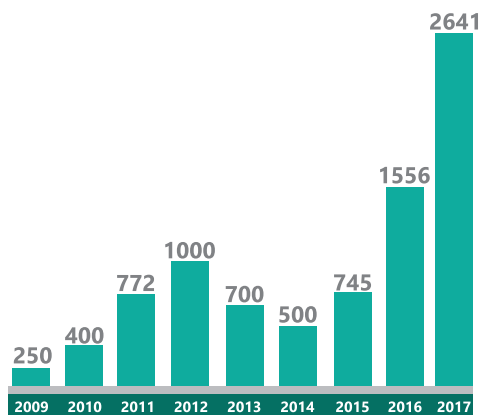
International Economic Summit “Russia – Islamic World: KazanSummit” is one of the leading international economic events of the Russian Federation and the Organization of Islamic Cooperation (OIC). From the first day of its existence, the event has been held under the patronage of the President of the Republic of Tatarstan – Rustam Minnikhanov. Since 2009, “Russia - Islamic World: KazanSummit” is held annually and strongly supported by the Federation Council of the Federal Assembly of the Russian Federation and the Government of the Republic of Tatarstan.

Top international investment conference remains the main and unique platform for cooperation between the Russian Federation and the Organization of Islamic Cooperation (OIC) member states.

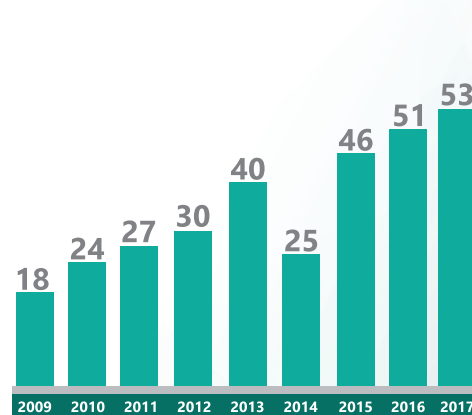
The aim of the forthcoming international summit is to strengthen trade and economic, scientific-technical, social and cultural ties between Russia and of the Organization of Islamic Cooperation member countries.

The key topic of the “Russia - Islamic World: KazanSummit” will be “Halal Lifestyle”.

**Participants of the
“Russia - Islamic World: KazanSummit”:**



**Member countries of the
“Russia - Islamic World: KazanSummit”:**



Why Tatarstan?



“Russia – Islamic World: KazanSummit 2017”



Main topics



CONTENTS

WELCOME ADDRESSES	05
EXECUTIVE SUMMARY	07
GLOBAL ISLAMIC FINANCE INDUSTRY LANDSCAPE	10
ISLAMIC FINANCE IN NON-OIC MARKETS	14
ISLAMIC FINANCE IN THE UNITED KINGDOM	16
ISLAMIC FINANCE IN LUXEMBOURG	18
ISLAMIC FINANCE IN SOUTH AFRICA	20
ISLAMIC FINANCE POTENTIAL IN RUSSIA AND TATARSTAN	22
CONTRIBUTORS	28



RUSSIA — ISLAMIC WORLD KAZANSUMMIT 2018

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WELCOME ADDRESSES



Rustam Minnikhanov

President of the Republic of Tatarstan

I am glad to welcome the participants of the 10th International Economic Summit "Russia – Islamic World: KazanSummit 2018" in the Republic of Tatarstan.

Creating an attractive investment climate and encouraging entrepreneurial initiatives are one of the major principles of our consistent economic policy.

By the Decree of the President of the Russian Federation Vladimir Putin, I have been appointed the Chairman of the Group of Strategic Vision "Russia – Islamic World" since 2014. Currently, the Group is focusing on the development of measures for the further strengthening of long-term cooperation between Russia and Islamic countries as well as the practical realization of the strategic partnership between the Russian Federation and the Muslim world. The international economic summit "Russia-Islamic world: KazanSummit 2018" is a major event for the implementation of these measures.

Through the years, the member countries of the Organization of Islamic Cooperation (OIC) have proven themselves to be dependable partners of the Republic of Tatarstan. The Russian Federation and the Republic of Tatarstan are now exploring new ways of approach to potential cooperation with the world's Islamic states.

Many countries develop the Halal Industry, create the economic, social and cultural system that corresponds with their religious values. "Halal" has already become not only a standard for adherents of Islam but also the indicator of the quality of products and services in secular societies. The Republic of Tatarstan is also moving in this fairway. It's not a coincidence that the main topic of the 10th International Economic Summit "Russia – Islamic World: KazanSummit 2018" is "Halal Lifestyle" that includes such spheres as the Islamic finance and banking, sustainable development, blockchain technology, intercultural cooperation, tourism and business institutes.

We know for certain that your stay in our republic will be comfortable and productive. Tatarstan will impress you with its nature beauty, developed modern infrastructure and hospitality. The Summit will discover new horizons for establishing direct contacts for further cooperation.



Taliya Minullina

Head of the Tatarstan Investment Development Agency
Secretary of the KazanSummit 2018 Organizing Committee

It is my pleasure to welcome you in Tatarstan Republic on behalf of the Organizing Committee of the 10th International Economic Summit "Russia-Islamic World: Kazan Summit 2018".

Today this event tends to play a significant role in strengthening trading and economic, scientific, social and cultural relations between Russia and the Organization of Islamic Cooperation' member countries. In the dynamically changing international environment, the countries are forced to search for reliable economic partners.

The key topic of KazanSummit 2018 is «Halal Lifestyle». The Russian Federation and OIC countries will find the new ways of unlocking cooperation capacities.

This Summit is a unique platform for finding new clients and business partners, as well as presentations of investment potential and economic opportunities of the Russian regions. For the last few years our country has taken big steps to improve the business friendly environment for international partners. We changed legislation, organized numbers of federal tax free sites all across Russia. My pleasure is to inform you that Tatarstan Republic ranked number 1 in National ranking of Investment Climate amongst all Russian regions for three years in a row. Tatarstan enjoys investments from OIC countries and ready to expand this partnership.

We will do our best to make your stay in Tatarstan as comfortable and productive as possible. We hope that our region will impress you with its business opportunities, history and culture, beauty and hospitality.

I wish the participants and guests a pleasant stay and a productive visit!



EXECUTIVE SUMMARY

Islamic finance is a global industry established in the 1970s that has seen accelerated growth in the past two decades. This success is founded upon the expanding economic presence of Muslims worldwide and their increasing preference for financial services that comply with the principles of Shariah. Among the principles of Islamic finance are the rejection of *riba* (interest payments), a spirit of cooperation between lender and borrower, and a general reliance on investments in the real economy rather than on speculation. With 25 million Muslims, Russia has strong potential as a market for Islamic financial services. Tatarstan and Kazan in particular are well positioned to become a hub for these services in Russia.

NON-OIC FINANCIAL CENTERS PLAYING A GROWING ROLE IN ISLAMIC FINANCE

Total global Islamic finance assets have continued to grow in recent years to US\$2.2 trillion despite the slower growth of core markets in the Middle East owing to low prevailing oil prices. Islamic banks hold US\$1.6 trillion in assets, there is US\$345 billion in outstanding sukuk, and US\$250 billion is held in *takaful*, Islamic funds and other non-bank financial institutions.

Financial centers outside the OIC countries have had success introducing Islamic finance, both to serve resident and foreign Muslim investors as well as to profitably direct capital to growing markets in the Middle East, South and Southeast Asia. While the UK is currently a leader in this space, with around US\$7 billion in Islamic finance assets, in light of Brexit negotiations, investors and sukuk issuers are looking to Luxembourg as an attractive center with access to European markets. South Africa is a relatively smaller Islamic finance market, but it holds great potential because of the reach of its financial industry to the large Muslim populations of Southern and East Africa.

INTERNATIONAL CO-OPERATION WILL IMPROVE THE IF ECOSYSTEM IN RUSSIA

Although Islamic finance is in its infancy in Russia, there are signs Kazan could play a similar role for Central Asia. Russian banks and banking windows have offered Shariah-compliant products and services since 1997 following a participation-banking model under Russian Civil Law. Sberbank, the largest state bank, has entered the business, providing a leasing company in Tatarstan a line of credit structured as *mudharabah*. Three existing non-bank financial services companies have an even wider scope to apply *murabahah* and *mudharabah* in leasing and investment products. Meanwhile, investment banks such as VTB Capital have been involved in the international sukuk market, lead arranging a US\$500 million sukuk for Dubai-based DAMAC.

The growing appetite for Islamic products is apparent in Russia, as well as the experience of Russian financial professionals. Regulators are studying measures to develop a regulatory framework that would recognize full-fledged Islamic banks to prompt robust industry development. In a promising development, the IDB Group has partnered with the Russian government, Bank of Russia, and some of the largest state banks to launch Islamic finance development initiatives. Stakeholders hope these activities could help in building the professional skills and political relationships that could lead to a stronger industry ecosystem.

GLOBAL ISLAMIC FINANCE INDUSTRY LANDSCAPE

 | **1,407** Worldwide Islamic financial institutions in 2016

 | **1,075**
Scholars representing Islamic financial institutions in 2016

 | **12**
Countries with Central Shariah Boards

 | **44**
Countries with at least one type of Islamic finance regulation in 2016

GOVERNANCE

ISLAMIC FINANCE ECOSYSTEM

KNOWLEDGE AND AWARENESS

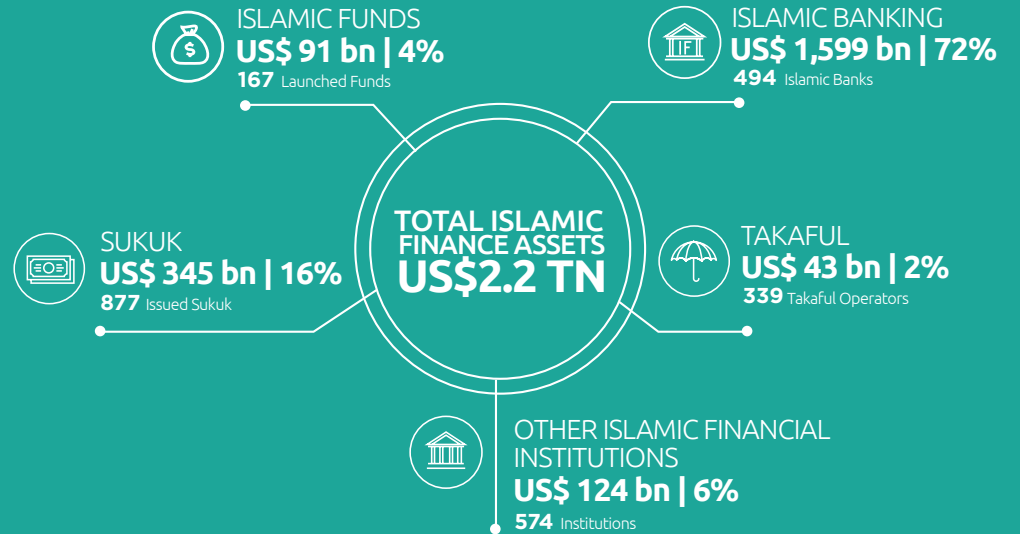
 | **2,581**
Islamic finance research papers published in 2016

 | **683**
Islamic finance educational institutions in 2016

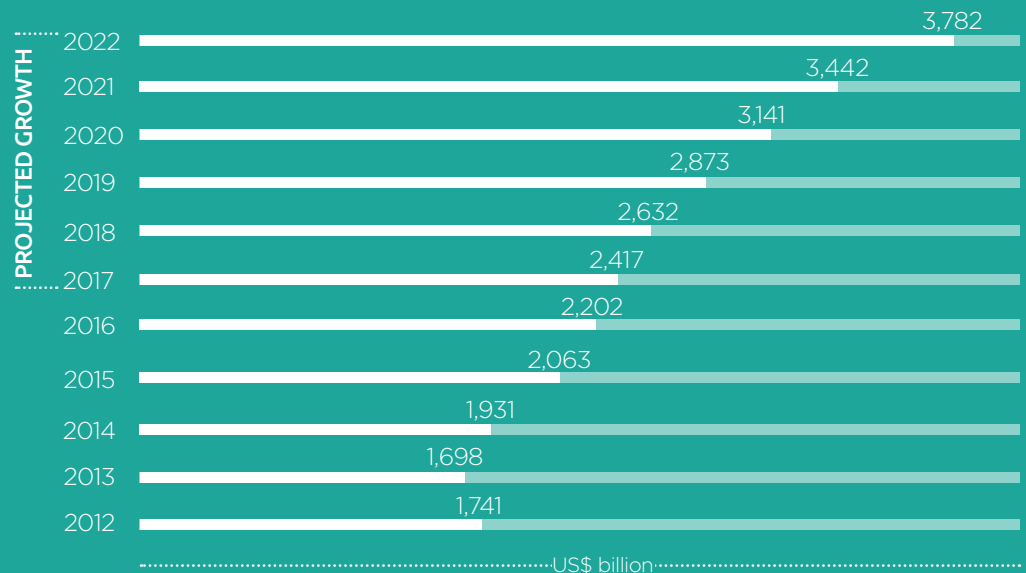
 | **417**
Islamic finance events in 2016

 | **21,964**
Islamic finance news items in 2016

TOTAL ISLAMIC FINANCE ASSETS BREAKDOWN AS OF 2016



THE TOTAL VALUE OF ISLAMIC FINANCE ASSETS IS PROJECTED TO GROW BY A CAGR OF 9.5% TO **US\$3.8 TRILLION BY 2022**

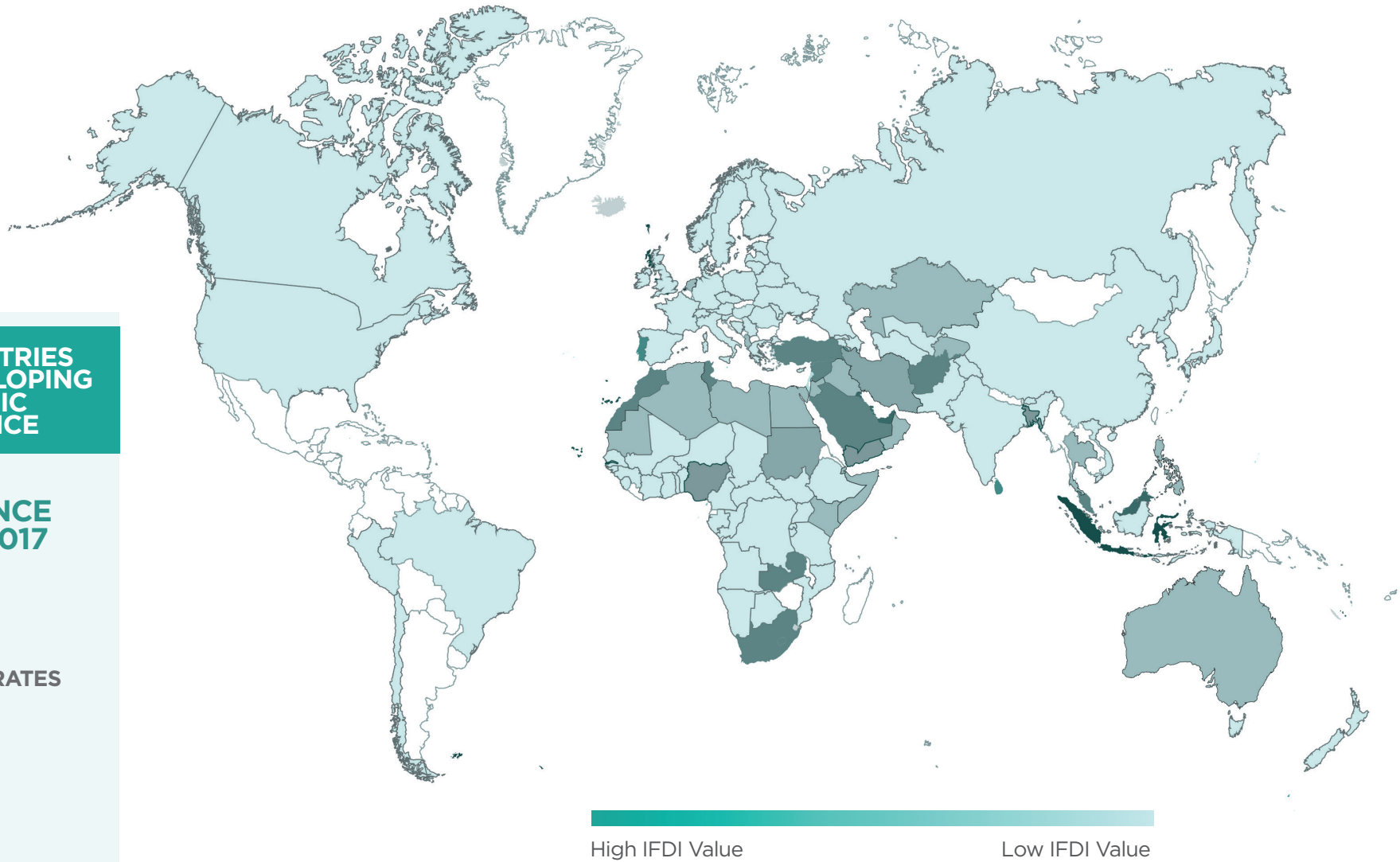


ISLAMIC FINANCE DEVELOPMENT INDICATOR VALUES BY COUNTRY FOR 2017

131 COUNTRIES DEVELOPING ISLAMIC FINANCE

TOP COUNTRIES IN ISLAMIC FINANCE DEVELOPMENT 2017

-  MALAYSIA
-  BAHRAIN
-  UNITED ARAB EMIRATES
-  OMAN
-  PAKISTAN
-  KUWAIT
-  SAUDI ARABIA
-  JORDAN
-  BRUNEI
-  QATAR



***SOURCE: ICD- THOMSON REUTERS ISLAMIC FINANCE DEVELOPMENT INDICATOR**

The indicator provides rankings and profiles for different Islamic finance markets around the world, drawing on instrumental factors grouped into five broad areas of development (the main indicators): Quantitative Development, Knowledge, Governance, Corporate Social Responsibility and Awareness.



SUSTAINED GROWTH OF ISLAMIC FINANCE ASSETS WORLDWIDE

The Islamic finance industry expanded by 7%, in 2016 reaching US\$2.2 trillion in total global assets. These assets are held in five major sectors: Islamic banking, takaful, sukuk, Islamic funds and other Islamic financial institutions, such as financing and real estate companies. Industry growth has persisted despite a brief slump caused by the decline in oil prices in mid-2014, leading to a slowdown in some of the industry's core markets. The most important regions in the industry are the Middle East and North Africa (MENA), Southeast Asia and South Asia, with the GCC accounting for 45% or US\$986 billion of total Islamic finance assets. The rest of MENA accounts for a further 27% of assets or US\$594 billion.

The global Islamic finance industry is underpinned by 1,407 financial institutions, ranging from full-fledged Islamic financial institutions such as Islamic banks, takaful firms, and Shariah-compliant investment companies to Islamic windows at conventional financial institutions that are tapping the growing demand for Islamic financial services.

The strong prospects for Islamic finance industry growth are based on its ongoing expansion into the full suite of Islamic financial services. The partial improvement in the oil prices from US\$33 in 2014 to US\$66 per barrel in early 2018 has improved conditions for such growth. This enabled different Islamic finance sectors such as Islamic funds and Islamic banking to improve performance. Islamic finance assets are projected to reach US\$3.8 trillion by 2022, an average annualized growth of 9.5%.



ISLAMIC BANKING REMAINS A KEY DRIVER FOR ISLAMIC FINANCE GROWTH

In 2017, Islamic banking still drives the biggest share of Islamic finance industry growth, as it holds by far the largest share of total Islamic finance assets. The largest Islamic banking markets in the world are Iran and Saudi Arabia. Islamic banks in Saudi Arabia have reaped the benefits of the Saudi government's recent international and domestic sovereign sukuk, while Iranian banks are strategizing to capture business from anticipated foreign investment inflows to the country following the suspension of sanctions.

New markets are working to establish or develop their local Islamic banking industries, such as Russia and Morocco. Recently established markets, like Maldives and Oman, are witnessing rapid growth in their Islamic finance assets. Countries in Sub-Saharan Africa such as Uganda, Kenya in the east and Benin, Mali and Senegal in the west have also seen rapid growth. To capture this growth, several governments around the world are developing their regulations for Islamic banking. Nigeria, for example, gave clearance for Islamic microfinance banks in April 2017, while Tunisia included a chapter on Islamic banking in its new banking law released in April 2016.

In total, 67 countries had Islamic banking or Islamic banking windows in 2016. In the countries that have Islamic banking and reported Islamic banking assets, the Islamic banking industry holds an average of 5% of total banking assets. GCC countries have the largest average share, where 37% of banking assets are Shariah-compliant, followed by the MENA region excluding the GCC with an average share of 30%.

An emerging trend in Islamic banking has been the rise in mergers and acquisitions between banks, whether full-fledged banks or conventional banks with windows, in regions such as the GCC, Pakistan and Malaysia. In the GCC, consolidation is on the rise as a result of the industry's widespread adaptation to lower profit margins following the drop in oil prices, which resulted in lower consumer spending, as well as fiscal consolidation measures by their governments.



TAKAFUL SECTOR RESTRUCTURING TO ADAPT TO CHALLENGES

The takaful sector accounted for US\$43 billion of global Islamic finance assets in 2016, up 7% from 2015. A total of 48 countries had takaful operators or takaful windows in 2016, together totaling 339 operators. Saudi Arabia has the largest takaful market, with total assets of US\$15 billion, followed by Iran (US\$11 billion) and Malaysia (US\$8 billion). Turkey, Pakistan and Indonesia are the fastest growing takaful markets in terms of assets, thanks to improving regulatory support.

Consolidation is also affecting the takaful industry, notably in recent years among Saudi Arabia and Bahrain operators. Meanwhile, in Southeast Asia, takaful operators have undergone restructuring to meet their regulators' requirements, moving towards industry consolidation. For Malaysia, new regulations require family and general takaful operations to be separate, while in Indonesia, Islamic units now must be spun off from conventional operations. In 2017, MAA Takaful in Malaysia was acquired by Zurich Insurance.



OTHER ISLAMIC FINANCIAL INSTITUTIONS PLAYING A LARGER ROLE IN THE INDUSTRY

Islamic financial institutions other than Islamic banks or takaful operators are also gaining a bigger share of the pie, accounting for US\$124 billion or 6% of total Islamic finance assets in 2016. These types of companies remain concentrated in Malaysia, Iran and Saudi Arabia but can be found in 47 other markets.

Financing companies based on the ijarah (leasing) model are expected to become popular in countries such as Saudi Arabia and Pakistan. It is also projected that Shariah-compliant non-bank financing firms will play a larger role in supporting SMEs in the GCC region either through venture capital, private equity, or peer-to-peer lending. Islamic fintech is also beginning to serve such financing needs in different markets. An Islamic fintech alliance has recently been formed by a consortium of Islamic fintech companies from Europe, Asia and the Middle East.



GROWTH SLOWED FOR SUKUK DURING 2016, BUT IS REVIVING

Sukuk saw slowed global growth in 2016 as the result of many governments in core markets such as the GCC opting to issue conventional sovereign bonds instead of sukuk. Total corporate sukuk issuance at institutions such as Islamic banks also slowed in growth during this period. Malaysia remains the top market among the 26 countries where sukuk was issued in 2016. Debut issuances in 2016 came from Senegal, Jordan, Oman and Ivory Coast.

The sector revived in 2017, with a jump in sukuk issuance in 2017, particularly in the GCC. Saudi Arabia debuted its record-breaking international issuance amounting to US\$9 billion across two tranches. It was also followed by a series of domestic riyal-denominated issuances that will give a boost to its Islamic finance industry. Saudi Arabia is a leading example of many countries resorting to sukuk to finance their economic development policies. Indonesia is another country that tapped the sukuk market in 2018. It became the first Asian sovereign to sell green sukuk, a trend that is catching on recently, alongside SRI sukuk.



ISLAMIC FUNDS RECOVERING IN PERFORMANCE WITH HIGHER OIL PRICES

The Islamic asset management sector is the fastest growing sector in the Islamic finance industry, reaching US\$91 billion in assets in 2016. One feature of the unprecedented growth of Islamic funds is their strong expansion in Iran. These are mostly comprised of local equities, which reflect the improved prospects in the local market following the lifting of sanctions. Islamic funds in other countries such as Saudi Arabia and Malaysia saw a rebound in their performances as well after its negative growth in the years following the economic downturn in 2014.

There are opportunities in the Islamic asset management industry gaining traction recently such as Islamic pension funds, Islamic wealth management and SRI funds.

ISLAMIC FINANCE IN NON-OIC MARKETS

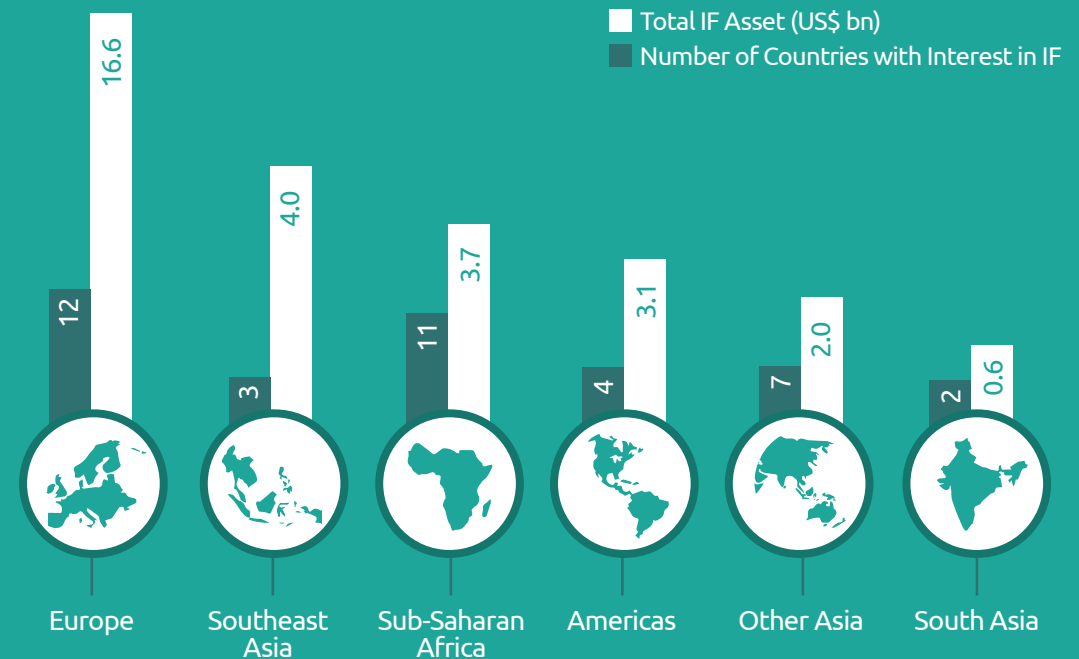
Islamic financial services are available, in some form, in 39 non-OIC countries, making up 47% of the total countries with an Islamic finance presence globally. Total Islamic finance assets in non-OIC countries amounted to US\$30 billion, which accounted for a mere 1.4% of total global Islamic finance assets in 2016. Most of these assets are concentrated in the Islamic banking sector.

Most non-OIC countries with an Islamic finance presence are European, followed by countries in Sub-Saharan Africa. European individuals and institutions hold 55% of total non-OIC countries' total Islamic finance assets with total assets amounting to US\$17 billion. Islamic finance is also present in non-OIC countries in South Asia, and parts of East Asia and the Americas.

Apart from those with existing Islamic financial services, other non-OIC countries have shown interest in the industry by hosting Islamic finance-related courses and events or in reported informal industry talks. There are 39 such non-OIC countries that have shown an interest in the industry, mostly from Europe.

Non-OIC countries that have recently shown interest in the industry include Poland and Spain. The Spanish central bank hosted an event on Islamic finance that drew national press attention, while Poland has made efforts to broaden knowledge about the industry through events and education.

ISLAMIC FINANCE IN NON-OIC BY REGION



ISLAMIC FINANCE ECOSYSTEM IN NON-OIC



179

Islamic financial institutions



641

Islamic finance research papers published



243

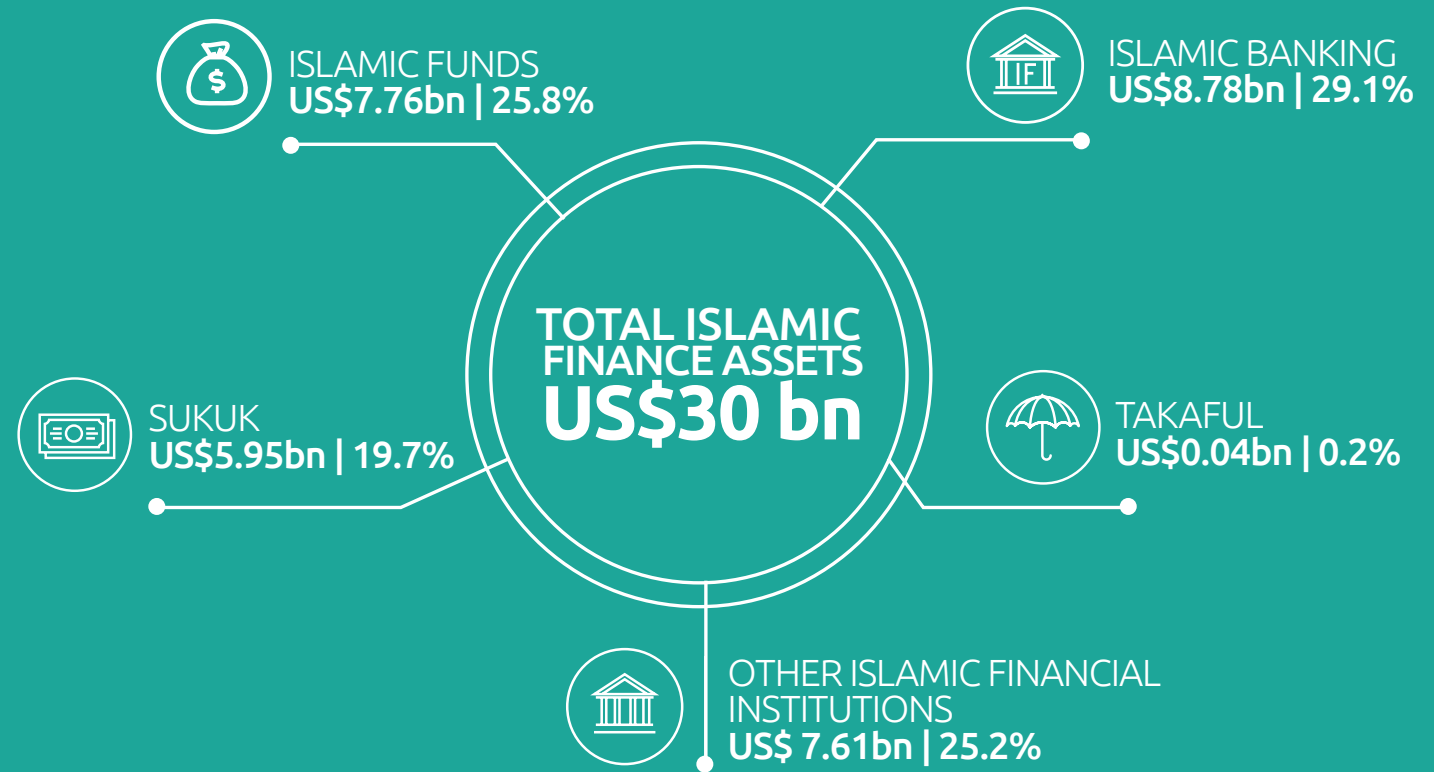
Islamic finance educational institutions



72

Islamic finance events

NON-OIC ISLAMIC FINANCE ASSETS BREAKDOWN AS OF 2016



LARGEST NON-OIC MARKETS BY TOTAL ISLAMIC FINANCE ASSETS IN 2016





ISLAMIC FINANCE IN THE UNITED KINGDOM

As of 2017, the UK earned about US\$77 billion from financial services alone making it among the leading global net exporters of financial services. The UK has long maintained its position as a leading global financial center, owing to its favorable policies on taxation, political stability and access to the European market. The UK has leveraged these advantages to attract Islamic finance to its shores by creating an attractive environment for Shariah-compliant investors from the GCC and the other OIC countries.

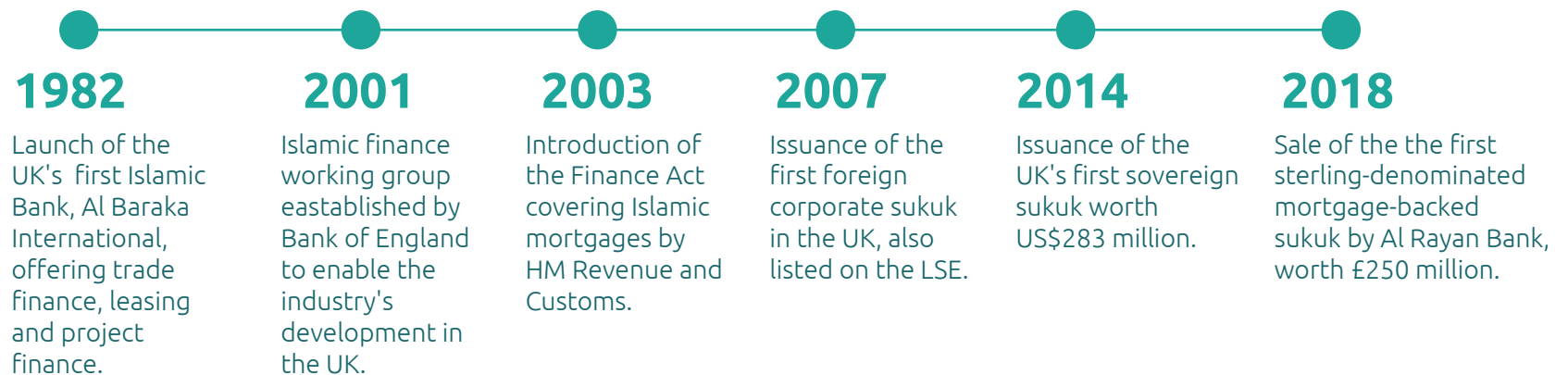
BREAKDOWN OF ISLAMIC FINANCE ASSETS IN THE UK (2016)



Source: ICD Thomson Reuters Islamic Finance Development Indicator Report 2017

Assets of takaful and other non-bank financial institutions in the UK are not publicly released.

ISLAMIC FINANCE MILESTONES IN THE UK



THE UK HAS ONE OF THE MOST DEVELOPED ISLAMIC FINANCE ECOSYSTEMS IN EUROPE

The UK has a total of US\$6.9 billion in Islamic finance assets, with banking and sukuk holding the majority of industry assets. Islamic banking assets reached US\$4.371 billion in 2016, supporting seven full-fledged Islamic banks and five Islamic banking windows. CityUK, a private sector membership body and industry advocacy group, acts as an advisor to the Bank of England on developing facilities for UK's Islamic banks. The CityUK also advises the HM Treasury on regulatory reform for Islamic finance to thrive and adhere to regulations relating to Islamic finance operations in the country.

One of the most attractive destinations for foreign sukuk listings, to date a total of 66 sukuk have been listed on the London Stock Exchange (LSE) worth US\$49 billion, including the UK's first sovereign sukuk issuance worth US\$260 million in 2014. As for the Islamic asset management sector, assets under management for Shariah-compliant funds reached US\$623 million in 2016.

The UK is also the leading education provider in Islamic finance globally with over 70 courses in Islamic finance available at UK educational institutions.

BREXIT TO ALLOW THE UK TO FOCUS ON MARKETS OUTSIDE THE EU

With Brexit imminent, investors looking are weary of investing in the UK and may look at alternative markets in Europe for investments. The UK government, through the Department of International Trade, has recently become active promoting the UK as an attractive investment destination for Islamic finance investments. Currently, the

Islamic finance sector in the UK enjoys tax relief on Islamic financial transactions, which includes the removal of double taxation and tax exemptions on Islamic mortgages and on debt issuances, which includes sukuk.

After Brexit, the UK will benefit from more autonomy in shaping its financial regulations. It may structure more flexible regulations for Shariah-compliant debt issuances and focus on extending tax relief to investors seeking Shariah-compliant products and services. The UK could also work towards creating a financial regulatory framework aligned with the UN's sustainable development goals (SDG), which would provide an avenue for green sukuk and SRI investment structures to be issued within the UK's jurisdiction.

INVESTOR PROTECTION IS AT THE FOREFRONT OF THE UK'S ISLAMIC CAPITAL MARKET AGENDA

The recent legal conflict over the Dana Gas sukuk has posed questions about Shariah risk for sukuk issuance. In May 2017, the company announced that it would be restructuring its outstanding sukuk, claiming that they were no longer Shariah-compliant under UAE law. This led to investors to take Dana Gas to court, and the issuer defaulted on the principal payment of \$700 million in October 2017. This has caused much confusion in the Islamic markets owing to a difference in Shariah interpretations on Islamic debt issuances from different jurisdiction that may follow either AAOIFI, IFSB or other Shariah standards. According to IFSB standards, the disclosure of sukuk structures and any relevant information is necessary to maintain "good market practice" unless the debt instrument is offered to a small number of sophisticated investors. On the other hand, AAOIFI standards stipulate that disclosure of a debt instrument is limited to principal terms and conditions of a sukuk issuance only which can be done on a combined basis in the case of multiple issuances.

As the Dana Gas sukuk is governed by English Law, the case was presided in a UK court, where a ruling was made in favor of investors. However, a difference in Shariah practices prompted the issuer to seek a ruling from UAE courts that the sukuk was invalid, which has been prevented with an injunction by UK courts. This ruling indicates that investor protection will be important factor in developing the attractiveness of Islamic capital markets in the UK.

Currently, the LSE does not enforce adherence to any Shariah standards for the listing of sukuk, and it allows such listings without the requirement of a full prospectus in accordance with Generally Accepted Accounting Principles (GAAP). To further strengthen investor protection, the LSE could revise its sukuk listing rules to issue a comprehensive list of requirements and Shariah-compliance guidelines for publicly listed sukuk to allow for more transparency and reduce the future risk of Shariah non-compliance and defaults.



ISLAMIC FINANCE IN LUXEMBOURG

Luxembourg has become a hub for traditional and cross-border investment management. It has also cultivated a favorable ecosystem for Islamic finance especially in the sukuk and Islamic funds space. Since 2009, the government has been proactive in developing its domestic Islamic finance industry, exploring areas where financial and tax regulations can be more accommodating towards Shariah-compliant transactions. Regulatory working groups determined that Luxembourg's existing financial regulatory framework was already Islamic finance-friendly and did not require any amendments.

LUXEMBOURG LEADS NON-OIC MARKETS IN ISLAMIC FUNDS

According to ICD-Thomson Reuters Islamic Finance Development (IFD) data, the value of Islamic finance assets in Luxembourg reached a total of US\$2.3 billion by the end of 2016, placed in Islamic capital markets including sukuk and Islamic funds. Luxembourg offers a wide range of regulated and unregulated vehicles for structuring Shariah-compliant investment with no additional regulatory or legal burdens. Shariah-compliant investment funds account for 87.5% of industry assets in Luxembourg. The Luxembourg Stock Exchange (LuxSE) listed its first sukuk in 2002, which has attracted subsequent issuances from Malaysia, Pakistan, Saudi Arabia, the UAE, Bahrain, Qatar, South Africa, the US and Hong Kong. In 2014, it issued its debut sukuk raising US\$254 million.

To date, Islamic banking has not taken off in Luxembourg, but a project to launch Europe's first Islamic bank is in the pipeline. Other financial institutions operating in the Grand Duchy include a sole takaful operator and two investment firms. However, the value of their assets has not been disclosed.



ISLAMIC FUNDS

174 ACTIVE
ISLAMIC FUNDS

US\$2 bn

TOTAL NET ASSETS

IN TERMS OF TOTAL
ISLAMIC FUNDS

1st AMONG NON-OIC
COUNTRIES

3rd WORLDWIDE BEHIND
MALAYSIA AND SAUDI
ARABIA.



SUKUK

3 SUKUK
OUTSTANDING WORTH
US\$284 MN

US\$13.56 bn

RAISED THROUGH

21 SUKUK LISTINGS ON
LUXSE SINCE 2002

1st SOVEREIGN AND
EU SUKUK RAISING
US\$254 mn
IN 2014

REGULATORY MILESTONES FOR ISLAMIC FINANCE IN LUXEMBOURG

2009

Luxembourg government announced plans to develop Islamic finance.

2010

Central Bank of Luxembourg became the first European central bank member of the IFSB and IILM.

2012

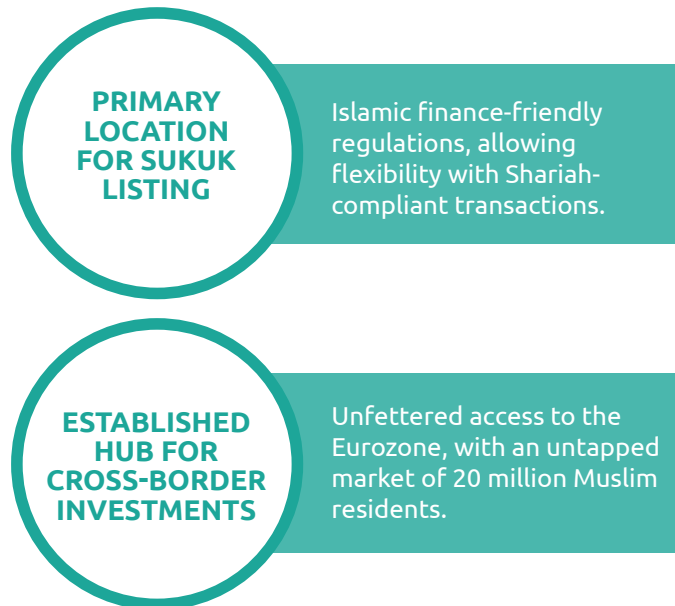
Association of the Luxembourg Fund Industry issued best practice guidelines for Islamic funds.

Tax authority published two circulars on direct and indirect tax treatment of murabaha transactions

NEW GATEWAY TO EUROPE FOR ISLAMIC FINANCE

With the UK's imminent exit from the European Union, there are expectations that Luxembourg will take over London's position as an Islamic finance hub for the West and the gateway for IFIs to the European market. Following the Brexit vote, there has been an exodus of investments to Luxembourg amid concerns over tighter regulations, higher taxes and losing access to the European market. This movement has been more prevalent in debt capital markets, where some bonds have already been delisted from the London Stock Exchange and re-listed in Luxembourg. Sukuk investors from Malaysia and Indonesia are also turning away from the UK. A similar situation is prevailing in the investment fund space.

LUXEMBOURG'S POTENTIAL AS AN ISLAMIC FINANCE HUB



CLEARER REGULATORY AND LEGAL FRAMEWORKS WILL BOOST UNDERREPRESENTED SECTORS

Sukuk and Islamic funds have flourished in Luxembourg, making it a leading hub for these instruments in the Western world. However, it still has a long way to go in terms of developing its Islamic banking and takaful sectors. These areas of Islamic finance still require more government and regulatory focus, especially since there is no Islamic bank present in the country and only one takaful operator. More clarity is needed in defining the Shariah rules and standards that apply in Luxembourg, and the tax treatment for each type of Islamic financial transaction.

Luxembourg has already gone through this process for sukuk, and this experience can be replicated for banking and takaful. Existing rules for conventional finance may still partly apply, however, some additional specific rules will need to be introduced to fill the regulatory gap. This would eliminate the need for issuing completely separate Islamic finance legislation, and perhaps the need to appoint internal Shariah boards. By clarifying both the legal environment and tax treatment of Islamic finance products, large conventional players may be encouraged to offer Shariah-compliant versions of their current products, as they have the credibility and confidence as well as the client base to set up Islamic finance subsidiaries.



“With a Luxembourg universal banking license and a European passport, an Islamic bank established in Luxembourg could develop its activities on a purely cross-border basis or by establishing branches in the target countries out of their Luxembourg subsidiary.”

Luxembourg Finance Minister, Pierre ⁽¹⁾

⁽¹⁾ Tan, Vineeta. “Luxembourg: Championing Islamic Finance in the Eurozone.” 25 November 2015. Islamic Finance News.



ISLAMIC FINANCE IN SOUTH AFRICA

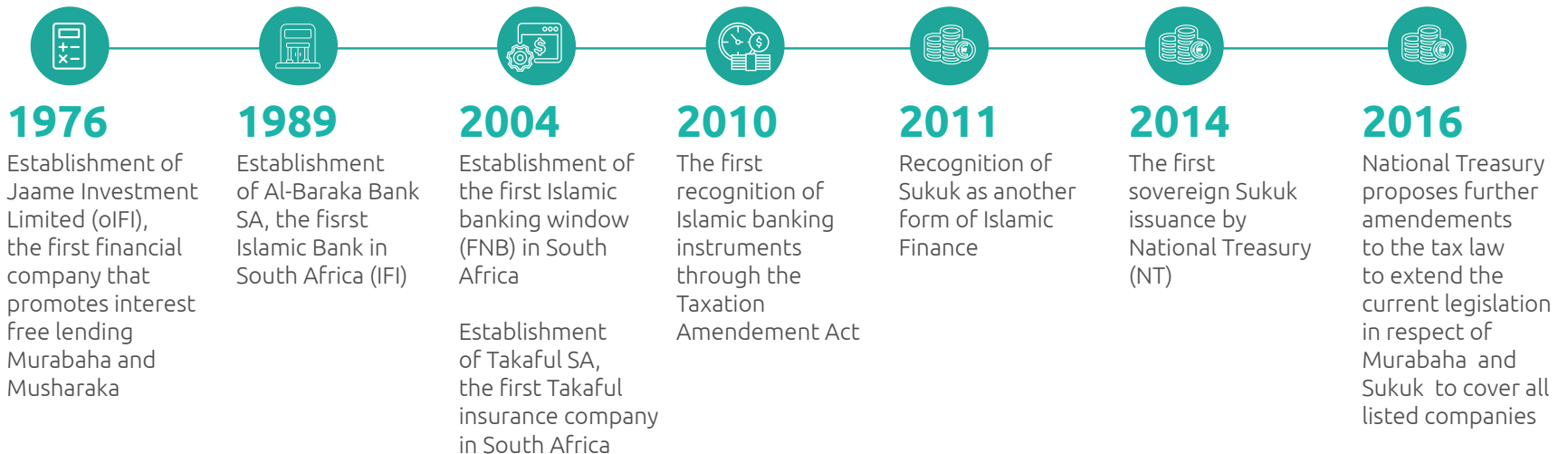
South Africa is ranked as Africa's largest financial center in 2017, in the Global Financial Centers Index (GFCI), with one of the most robust financial sectors in Africa, supported by advanced financial, regulatory and economic infrastructure and has a large domestic asset management industry. With sound financial regulatory and legislative frameworks and a strong investor base South Africa has attracted many foreign banks and investment institutions to set up regional operations. South Africa has a relatively small Muslim population of over one million - around 1.9% of the total population. However, Islamic banks have been able to gain a foothold in the South African financial services sector.

AMENDING TAX REGULATION TOWARDS A ROBUST ISLAMIC FINANCE ECOSYSTEM

Efforts to establish Islamic finance in the country date back to the early 1970s, with the establishment of Jaame Investment Limited in 1976, paving the way for the Islamic financial institutions that followed. The Banks Act of 1990 is the primary source of banking legislation, enforced by the South African Reserve Bank. However, these regulations are heavily focused on conventional banks, with no specific provisions for Islamic banks or Islamic banking windows.

In response to growing demand for Islamic banking, South African tax regulations were amended in January 2010. After the issuance of its inaugural sukuk in 2014, the country's National Treasury proposed further amendments to tax laws to extend the current legislation in respect of murabahah and sukuk.

ISLAMIC FINANCE MILESTONES FOR SOUTH AFRICA



ISLAMIC FINANCE INDUSTRY DOMINATED BY CAPITAL MARKETS

By the end of 2016, Islamic finance assets in South Africa totalled US\$2.64 billion, with Islamic funds and sukuk accounting for the largest shares. Islamic asset management constitutes the largest market in South Africa's Islamic finance industry, with approximately US\$1.8 billion invested in 98 Shariah-compliant funds. The Islamic Finance Development (IFD) report ranks South Africa tenth globally by assets under management for Islamic funds.

Sukuk hold the second-largest share of Islamic finance assets and provide an alternative channel for foreign funding in South Africa. In 2014, the South African government issued sukuk for the first time. This issuance raised US\$500 million, with 50% of subscriptions taken up by investors from the GCC. Another rand-denominated sukuk issuance is being planned by the National Treasury to occur in 2018 to bridge the government's US\$4 billion budget deficit.

At the end of 2016, Islamic banking assets in South Africa were estimated at US\$388 million. The takaful sector was established in 2004, with four takaful operators currently in operation.

REGULATORY REFORM TO PAVE THE WAY FOR INDUSTRY GROWTH

Even though the Islamic finance industry in South Africa is still in its infancy, it has a great potential to be the leading Islamic finance jurisdiction in Africa. Although the legal framework for Islamic finance in South Africa remains limited, recent government efforts to recognize Islamic finance instruments have shed light on the importance of the Islamic finance industry's contribution to South Africa's economic and financial development.

Provided that South Africa continues efforts to make current regulations more inclusive of Islamic finance, it stands to attract more interest from foreign Islamic financial institutions seeking access to Africa's largely untapped investor base. This can be achieved by issuing specific regulations for capital adequacy for Islamic banks, Shariah accounting standards, and guidelines on Shariah governance. Moreover, a Shariah supervisory board at the national level could be established.

ISLAMIC FINANCE HUB BY WAY OF CAPITAL MARKETS

Several countries including Morocco and Nigeria have been rapidly expanding into Islamic finance, and Africa might soon witness a race to become a hub for Islamic finance in Africa.



Item/Country	South Africa	Nigeria	Morocco
Tax Amendments	✓	✓	
Central Shariah Board		✓	✓
Sector-specific IF regulations		✓	✓
Islamic Funds	✓	✓	
Issued Sukuk	✓	✓	

Recent debut and repeat sukuk issuances from African sovereigns and expressed interest from others such as Kenya and Morocco offer the Johannesburg Stock Exchange (JSE) untapped markets ripe with potential. A bustling market for debt instruments, over 1,600 instruments are listed on the JSE with over 50% of outstanding value in the South African and other African sovereign debt amounting to US\$82.7 billion (R1 trillion)². By leveraging its status as the largest listed debt market in Africa and supporting the listing and regulation of sukuk on JSE, South Africa would be well placed as a regional hub for sukuk and Islamic funds.

Moreover, the market received the launch of JSE's 'Green Bond Segment' and Green Listing Rules in 2017 with positive sentiment. This has encouraged the exchange to further promote green bond issuance through this platform, which will position South Africa as "a gateway to green investment in sub-Saharan Africa."³. This proposition could be extended to the issuance of green sukuk – a niche in the wider sukuk market – attracting not only regional but also global issuers and investors.

⁽²⁾Johannesburg Stock Exchange

⁽³⁾Haurman, Minday and Hussain, Tallat. "Green Finance in Africa". 7 February 2018. White&Case.



ISLAMIC FINANCE POTENTIAL IN RUSSIA AND TATARSTAN

Around 25 million Muslims live in Russia, exceeding the 20 million living across the rest of continental Europe. The populations of some of the country's regions such as Tatarstan, Bashkiria, Dagestan, Chechnya and Ingushetia are almost entirely Muslim. Tatarstan, and its capital Kazan in particular, is regarded as the most developed of these regions in terms of Islamic finance. Reuters observed, in 2011 that the region has led various initiatives for industry development; and had established the necessary infrastructure and client base and has maintained strong relations with GCC countries. As such, the region has positioned itself as a frontrunner to become the hub for Islamic finance in Russia.

ISLAMIC BANKING THE PRIMARY FOCUS FOR INDUSTRY DEVELOPMENT EFFORTS

Russia is a nascent Islamic finance market. Although there have been efforts to establish Islamic financial institutions in majority-Muslim cities since 1997, the industry remains at an early stage of its development. Efforts for the development of the Islamic finance industry in Russia have been concentrated on establishing a fully Shariah-compliant banking system.

Several banks and banking windows have been established since 1997 to offer Shariah-compliant products and services, currently following a participation-banking model permissible under existing Russian Civil Law.

Around 20 banks in Russia have shown interest in expanding into some form of Islamic banking offering in the past few years.



“The government of Tatarstan actively promotes and supports the idea of Shariah-compliant financing and the republic is indeed the best candidate among the Russian regions for sukuk issuance.”

Reuters⁽⁴⁾

⁽⁴⁾Azmikanov, Bakyt. “Tatarstan Islamic finance hub ambitions boosted”. September 14, 2011. Reuters.

SBERBANK

Largest state-owned bank in Russia

Sberbank, launched a “pilot” participation banking (mudharaba) transaction, certified by the Shariah Review Bureau for compliance with AAOIFI standards. The transaction was used to fund a large leasing company in Tatarstan, with a limit of 45 million rubles (US\$775,000). The bank is currently exploring similar transactions for leasing, financing food production and trading, as well as financing structures like musharaka and murabaha.

VNESHECONOMBANK

State-owned development bank

Vnesheconombank is looking at opportunities in infrastructure investment through Islamic banking products in project financing, trade financing and hire purchase.

NON-BANK IFIS ENJOY MORE FLEXIBILITY BUT ARE STILL LIMITED BY REGULATION

There are currently three companies in Russia that provide non-banking financial services: BKS Fund Khalal Mututal Investment Fund and Tatarstan International Investment Company, offer Shariah-compliant funds and investment consulting services respectively. In addition, LaRiba Finance Trust Partnership offers non-bank financing through murabahah and mudharabah. These types of Islamic financial institutions operate with more freedom under Russian Civil Law than banks, as they are allowed to trade and offer leasing and investment products, which are prohibited for banks. However, the development of Islamic finance regulations would allow these institutions to offer a wider and more innovative range of products and boost their competitiveness with their conventional counterparts.

Although Russia has been identified as a potential growth market for takaful, given its large Muslim population, the market for Shariah-compliant insurance remains untapped. Takaful business is not currently present in Russia, nor have there been any recent announcements of plans to develop this sector.

DEVELOPING EXPERTISE IN SUKUK TO HELP TAP OIC INVESTMENTS

Despite much interest in issuing both sovereign and corporate sukuk, Russia and Tatarstan have not yet tapped Islamic capital markets. This has been attributed to a lack of local expertise and familiarity with Islamic debt capital markets.

However, Russian banks, such as VTB Capital (a subsidiary of Kuwait Finance House in Kazan), have been building their expertise as lead arrangers for sukuk. VTB was the lead arranger for US\$500 million sukuk for Dubai-based property developer DAMAC. In addition, Russia’s National Rating Agency signed an agreement with the Islamic International Rating Agency to jointly assign Sharia-compliance quality ratings for Islamic financial products, including sovereign debt and Islamic financial institutions.

On another note, the Islamic Business and Finance Development Fund (IBFD), based in Kazan, has been working with asset managers to introduce Islamic mutual funds that would channel funds into Russian companies, including those in the halal industries such as food preparation.



A ROBUST REGULATORY FRAMEWORK WILL BE KEY TO KICK-STARTING THE ISLAMIC FINANCE INDUSTRY

In Russia, there is currently no regulatory framework that enables Islamic financial institutions to fully comply in their operations with Shariah standards. Banks offering Islamic banking products or services are limited to participation banking structures that comply with Russian Civil Law. Moreover, Russia's tax code does not accommodate for the asset-backed nature of some Islamic finance transactions, which thereby incur an additional tax liability on underlying assets.

In order to develop a conducive environment for Islamic financial institutions, it is necessary to establish a robust regulatory and supervisory framework for Islamic finance and banking. This will support the establishment and sustainability of cost-efficient industry players. It will also attract foreign Islamic financial institutions into Russia, bringing their industry reach and expertise. Amendments to the tax code must also be applied to ensure tax neutrality between conventional and Islamic financial transactions, thereby ensuring a level playing field between conventional and Islamic financial institutions.

In this regard, multiple efforts have been made by Bank of Russia, the country's central bank, and other market players to develop the necessary regulatory standards for the development of Islamic banking. The Bank of Russia has formed a working group to study the prospects for introducing Islamic banking in Russia and to prepare a roadmap for establishing the industry in Russia.

LOCAL INDUSTRY DEVELOPMENT EFFORTS SUPPORTED BY IDB GROUP

The IDB Group has been actively involved in supporting policymakers, regulators, financial institutions and local industry development bodies in their initiatives to develop a robust ecosystem for Islamic finance in Russia and Tatarstan. Kazan-based Islamic Business and

Finance Development Fund (IBFD) and Moscow-based International Association of Islamic Business (IAIB) have been established as non-profits mandated with developing economic and business ties with OIC countries.

IDB

Islamic
Development
Bank

Islamic banking: MOUs with the Bank of Russia, Vnesheconombank and Sberbank to support pilot Islamic banking initiatives through legal and regulatory advice

Education: IDB scholarships for Russian nationals to complete their university education in Islamic finance, offering over 70 scholarships to date.

IBFD

Islamic Business
and Finance
Development
Fund

Education and Awareness: provides Islamic financial solutions for businesses in Russia and CIS, offers educational and training courses on Islamic banking and finance, and organizes international business events.

ICD

Islamic
Corporation for the
Development of
the Private
Sector-IDB)

Investment Promotion: ICD-IAIB MOU to promote Islamic finance in Russia, develop ties with IFIs and attract investments from OIC markets.

TIDA

Tatarstan
Investment
Development
Agency

Awareness: promoting Islamic finance at major industry events in Russia. KazanSummit, organized by TIDA - major Russian platform for industry networking and discussion of prospects and developments in Islamic finance.





RUSSIA EYES OIC MARKETS AS NEW FUNDING SOURCE

Russia has become more open to Islamic finance, developing a keen interest in the industry and adopting it as an important direction for the development of the country. Considering its large Muslim population alone, it has much untapped potential for Islamic finance. Moreover, recent US and EU sanctions imposed on the country have closed Western financial markets as a source of funding for Russian entities. This has led the country to seek alternative funding sources, tapping OIC markets especially in the GCC and Southeast Asia through Islamic finance instruments.



REGULATION AND FINANCE PILLARS FOR INDUSTRY DEVELOPMENT

In addition to strengthening investment and trade relations with OIC countries, policy makers and financial regulators in Russia should also focus on comprehensively developing an ecosystem in which Islamic finance can flourish. Key pillars for this ecosystem will be establishing a robust regulatory and supervisory framework, educating a specialized and highly skilled talent pool, and promoting Islamic finance concepts and products both to the general public and to finance professionals



DEVELOPING ISLAMIC CAPITAL MARKETS TO ATTRACT FDI

Providing a regulatory ecosystem and industrial community that encourages Islamic finance will make it easier for well-established banks in Russia to set up Islamic banking subsidiaries or windows, and it will attract foreign Islamic banking players to tap the Russian market. Building the expertise and network to support sukuk issuances will provide Russia better access to OIC markets, allowing the Russian government at the federal, regional and municipal levels to access debt markets for funding infrastructure projects. Russian businesses, particularly those active in halal industries, stand to benefit from both developed sukuk and Islamic funds markets, which will direct foreign investment from OIC countries toward private sector industries

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