French Initiatives for Islamic Finance

Dubai, December 15th, 2010

DIFC Conference Center

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French approach since 2007: a few milestones

- Priority set by Christine Lagarde, French Finance Minister
- Launch of Paris Europlace Islamic Finance Commission
- July 2007: AMF recommendation for Sharia-compliant funds
- July 2008: AMF statement for the listing of sukuk
- January 2009: AAOIFI-Paris Europlace MOU for the translation of AAOIFI standards in French
- July 2009: listing procedure and creation of a sukuk listing segment by NYSE-Euronext
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French approach since 2007: meanwhile...

- Jouini-Pastré report for the Development of Islamic Finance in France
- Set up of Sharia boards in France (currently, 4)
- Creation of several certificates courses in Islamic finance
- First tax instruction for murabaha and sukuk in February 2009
- Numerous high level seminars
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French approach since 2007: business

- Various shariah compliant funds and ETFs
- Numerous murabaha and reverse murabaha transactions, up to $3 Bn
- French banks’ activity in the Middle-East region, including BNP Paribas, CACIB (Calyon), Soc Gen…
- AXA’s IPO in Saudi Arabia for a takaful business
- Islamic financial institutions projects for a banking licence in France
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Going forward… focus on two specific items:

- Islamic Finance Products
- Sukuk issuance
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Islamic Finance Products
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Issues: what they were

- Are Islamic finance transactions subject to banking law?
- What is the tax treatment of the margin in a buy and sale transaction?
- How could you reconcile differing views of a Shariah' compliant product in a non-Islamic system?
- By the way... how could an Islamic finance transaction be defined under French legal (secular) system???
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Our answer...

... Tax Regulation...
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« Tax instructions » : how, what for?

- Specific group under Paris Europlace structure
- With: lawyers, Shariah advisers, tax specialists, bankers, regulators, Treasury
- Scope: main Islamic financial products (sukuk, murabaha, ijara, istisna, mudaraba, salam, wakala, musharaka…)
- Objective: clarify the legal framework for Islamic finance in France
  - banking regulation
  - accountings and tax treatment
  - prudential requirements
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« Tax instructions » : how does it work?

- Definition of each instrument with existing French legal concepts (could be non Shariah compliant)
- Qualification as banking operations (banking law)
- Benefit of the usual tax treatment of banking operations
- Use of a tool which
  - explains the tax treatment of specific products
  - does not create any new rights per se
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« Tax instructions » : which effects (1/2)?

- Each Islamic finance product gets a reference through a connection made with one or several conventional banking or financial products

- Banks/ regulators can determine the relevant:
  - banking regulation
  - accountings and tax treatment
  - prudential requirements

- Banks get the basis for a comprehensive business plan

- Regulators get an adequate understanding for granting a license
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« Tax instructions » : which effects (2/2)?

- Shariah’ Boards can design the adequate compliant products in their own way (within the given framework)
- No need for changing French legislation (so far…)
- In passing, the general public gets a reference to help them understanding the products
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Sukuk Issuance
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What is the issue?

- Existing financial products granting a form of ownership to the holders:
  
  equity, fonds commun de placement (FCP/ FCPI), Sicav, fiducie (trust)…

- Existing financial products with a bond-like tax treatment:
  
  bonds, tracking securities, fonds commun de titrisation (FCT)…

- Problem:
  - just not the same products…
  - changing existing tax treatment would/ could have undesirable effects
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What is the answer?

- Mixing the various legal structures to obtain both property rights and appropriate tax treatment
- Defining models, with especially AAOIFI’s help
- Offering them to the market place

Last news: AAOIFI Shariah scholars approved the issuance models presented to them end of November, with some technical adjustments.
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Calendar
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Done
- Fiscal instructions for sukuk, murabaha, ijara, istisna published in August 2010

Underway
- Fiscal instructions for mudaraba, salam, wakala, musharaka
- Issuance models for sukuk