

Dubai International Financial Centre (DIFC)

Nik THANI

**Executive Director, Islamic Finance,
Dubai International Financial Centre Authority**



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DIFC | Dubai International Financial Centre

Executive Summary

- **Islamic Finance**
 - An overview of Islamic Finance as an alternative form of financing that is gaining global acceptance.
- **Sukuk.**
 - An introduction to Islamic bonds known as *Sukuk* as an example of an Islamic financial instrument with wide appeal and potential.



1

What is Islamic Finance?



Islamic Finance

- Islamic Finance provides alternative financial services in accordance with Islamic law or *Sharia*.
- Islamic finance emphasize on:
 - Responsible financing.
 - Ethical investing.
 - All inclusive, focus on real economic growth.
 - Not limited to commercial banking and extend into capital markets, insurance (*Takaful*) and others.
 - Open to all.



The Principles of Islamic Finance

- Prohibition of *Riba*.
 - Interest based transaction.
 - Risk sharing.
 - Underlying assets.
- Prohibition of *Gharar*.
 - Speculative activities.
 - Gambling.
- Avoidance of *Haram* or socially irresponsible / illegitimate activities.
 - Casino.
 - Alcohol.



Facts & Figures

- Size: Approximately USD 800 billion globally (expected to exceed \$1.4 trillion by 2010).
- Growth: average of 15% - 20%.
- No. of players: more than 300 IFIs and Islamic windows operating globally.
- The sector continues to be pushed by two key centres with almost half of all products originating from either Malaysia (23%) or Saudi Arabia (25%).
- Islamic banking represents approximately 25-30% of banking system in the GCC states. Islamic portion projected to reach 40% of total banking assets by 2010.
- Islamic banking projected to capture half the savings of the world's 1.6 billion Muslims .



International Bodies

- IIFM- International Financial Market
 - Takes part in the establishment, development, self-regulation and promotion of Islamic capital and money markets.
- IIRA- International Islamic Rating Agencies
 - Assists the industry to gain recognition as strong and capable financial institutions, adhering to greater standards of disclosure and transparency.
- AAOIFI- Accounting & Auditing organization for Islamic Financial Institutions
 - An Islamic international autonomous non-for-profit corporate body that prepares accounting, auditing, governance, ethics and *Sharia* standards for IFIs and the industry.



International Bodies – cont'd

- IFSB – Islamic Financial Services Board
 - issues global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors.
- IDB – Islamic Development Bank
 - to foster the economic development and social progress of its member countries and Muslim communities in non-member countries in accordance with the principles of *Sharia*.



Sharia Supervisory Board

Sharia Supervisory Boards of IFIs undertake various activities :

- Members are qualified individuals who can present *Sharia* opinions and have vast experience in the application of *Sharia*.
- Ensures product offerings adheres to fundamental principles of *Sharia*.
- Contribute to the development of new financial products.
- Audit actual implementation of activities.
- Issuance of *Fatwa* (religious edict) on various matters related to finance.

Sharia Supervisory Board – cont'd

Regulatory model of *Sharia* Supervisory Boards:

- Centralized Board e.g. Malaysia:
 - The *Sharia* Advisory Council was established by the Central Bank as authority for any business based on *Sharia* principles and to advise the Securities Commission pertaining to the Islamic Capital Markets.
- Risk Based e.g. DIFC:
 - DIFC has a unitary, risk-based *Sharia* systems regulator, ensures compliance of *Sharia* by IFI but do not define what is or is not *Sharia* compliant.

Challenges

- **Common misconceptions**
- **Level playing field**
- **Expanding asset class**
- **Demand far exceeds supply**
- **Regulatory & legal framework e.g. tax**
- **Information gap**
- **Human Capital**



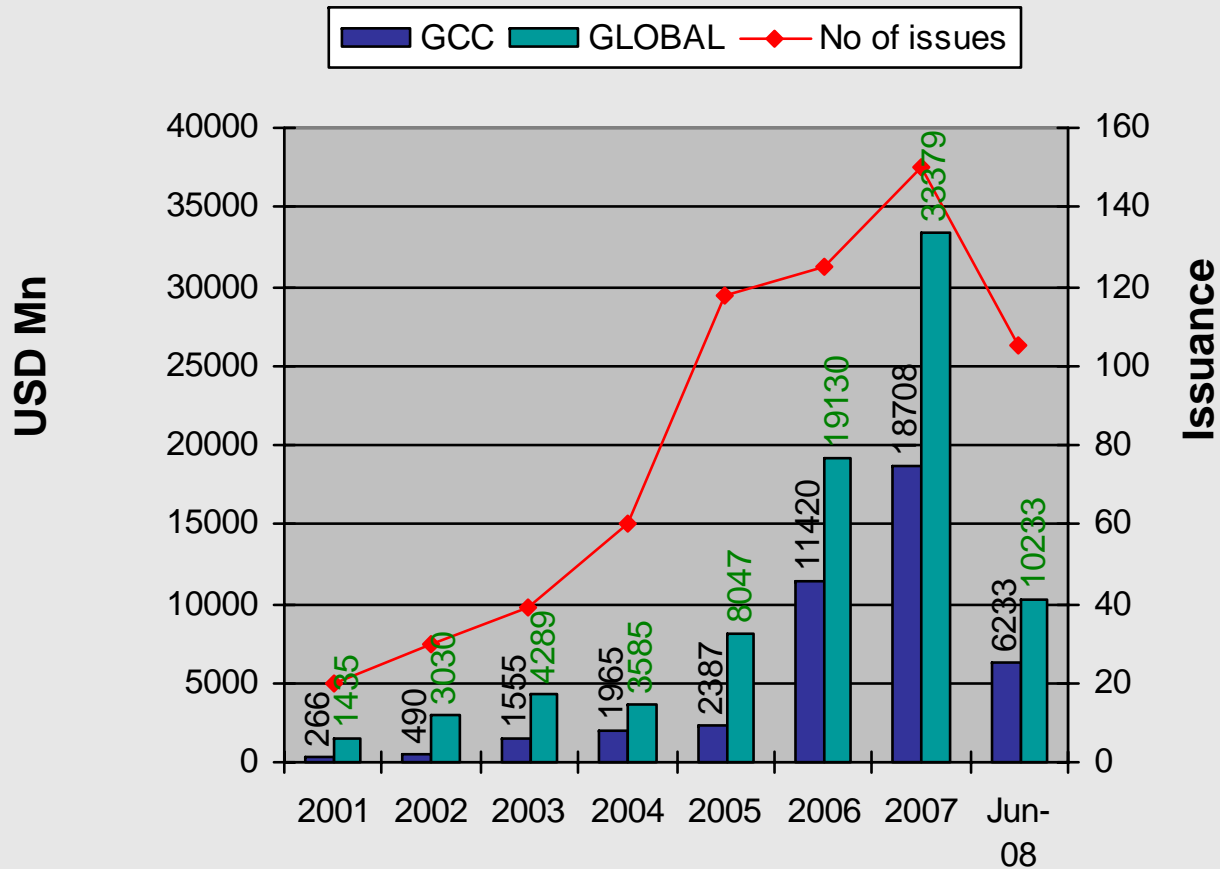
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Sukuk



Worldwide Sukuk Market

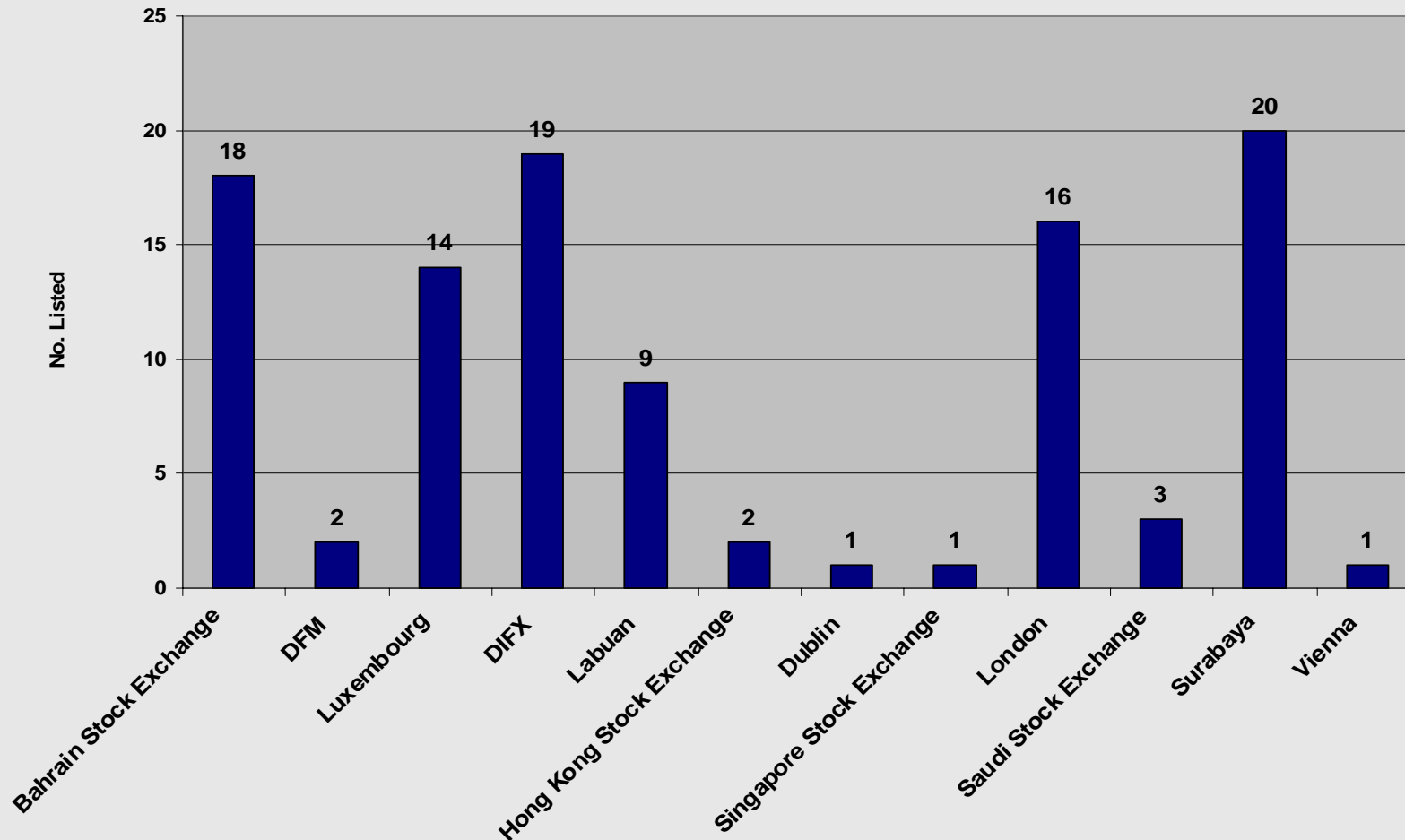
Global Sukuk Issuance



Source: Zawya Sukuk Monitor

Worldwide Sukuk Market - cont'd

Listed Number of Sukuks on Major Stock Exchanges

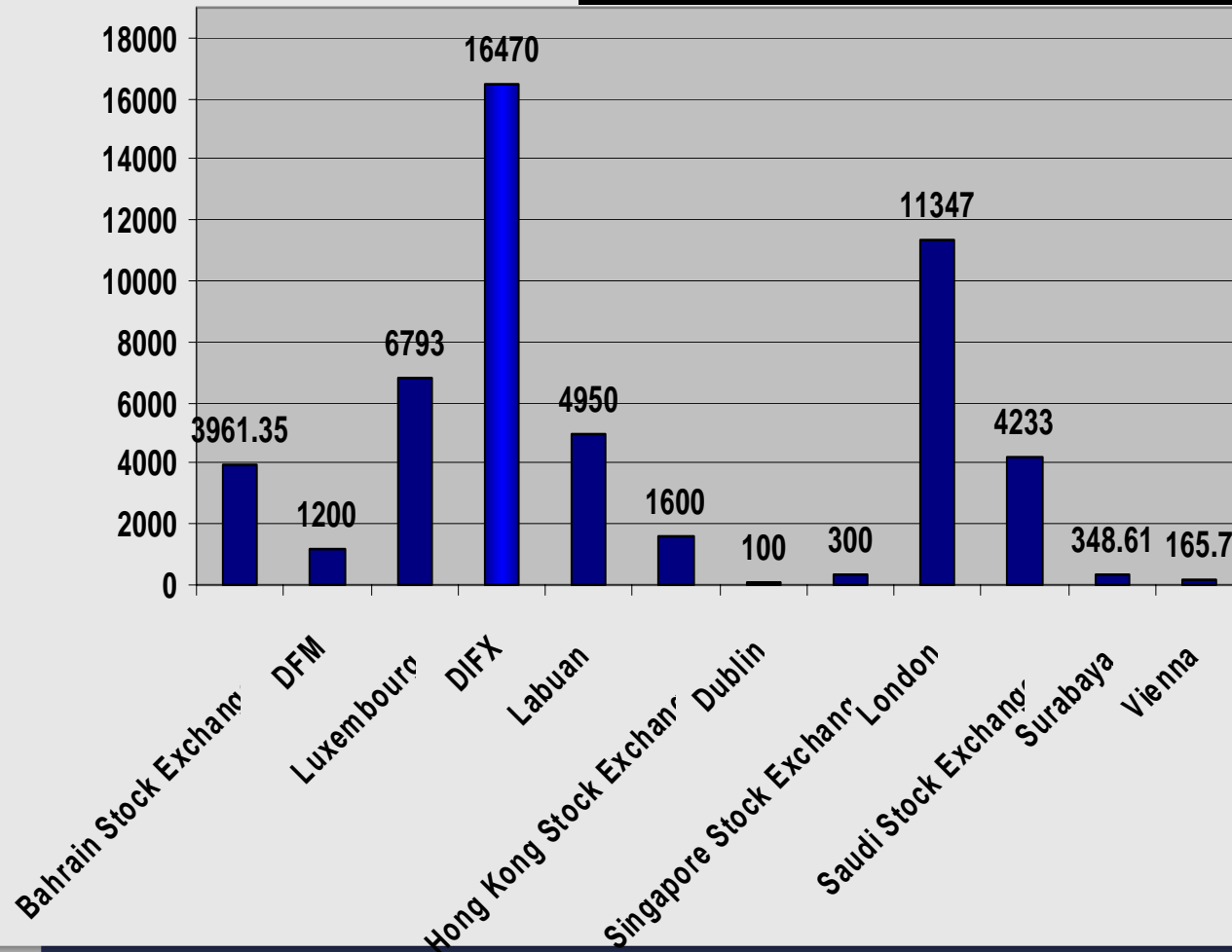


Data as of Feb, 2008; Includes both domestic & international issues
Source: DIFX



Worldwide Sukuk Market - cont'd

Listed Value on Stock Exchange USD

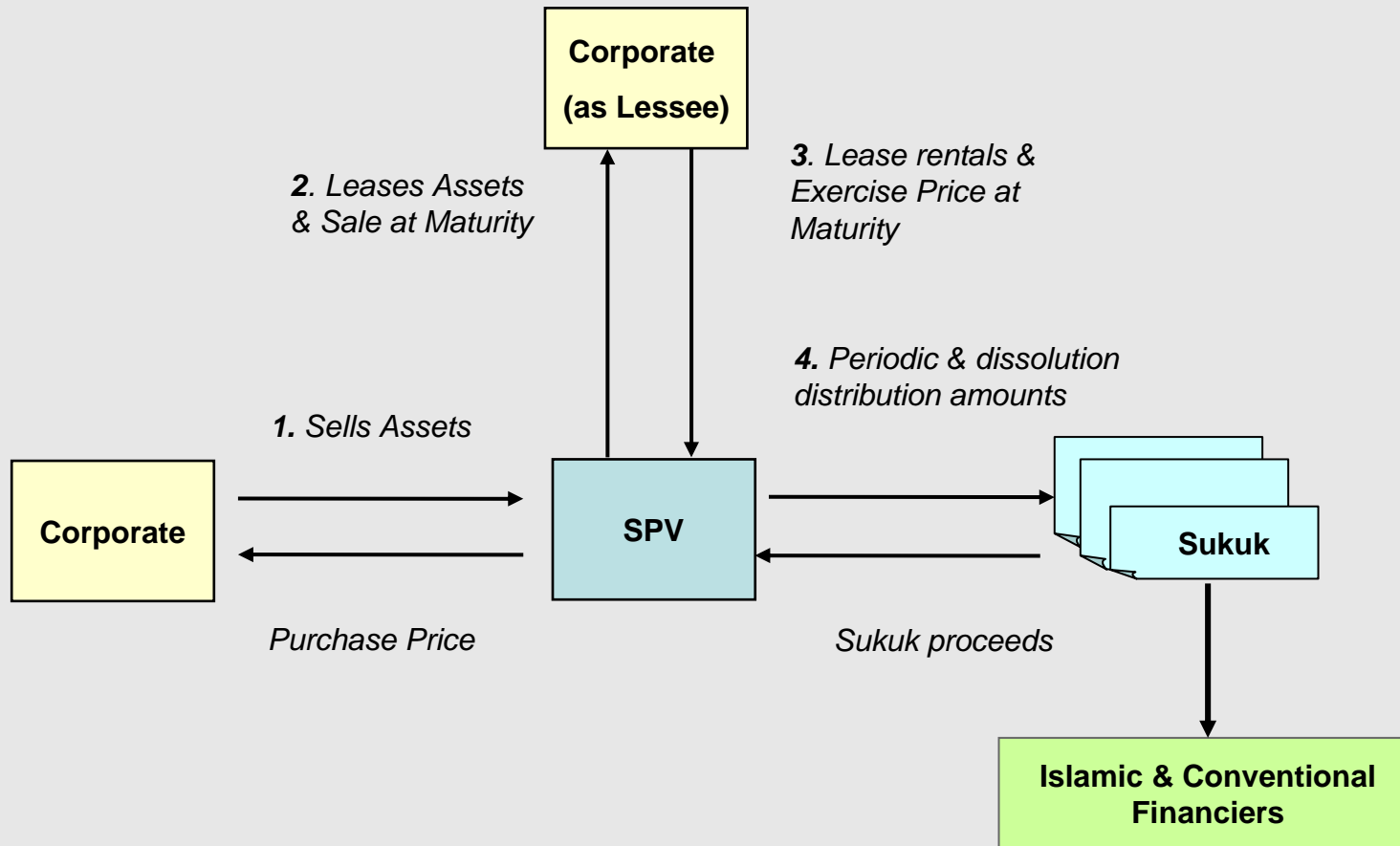


DIFX is the world's largest exchange for Sukuks in terms of value, with eleven issues totaling more than \$16 billion.

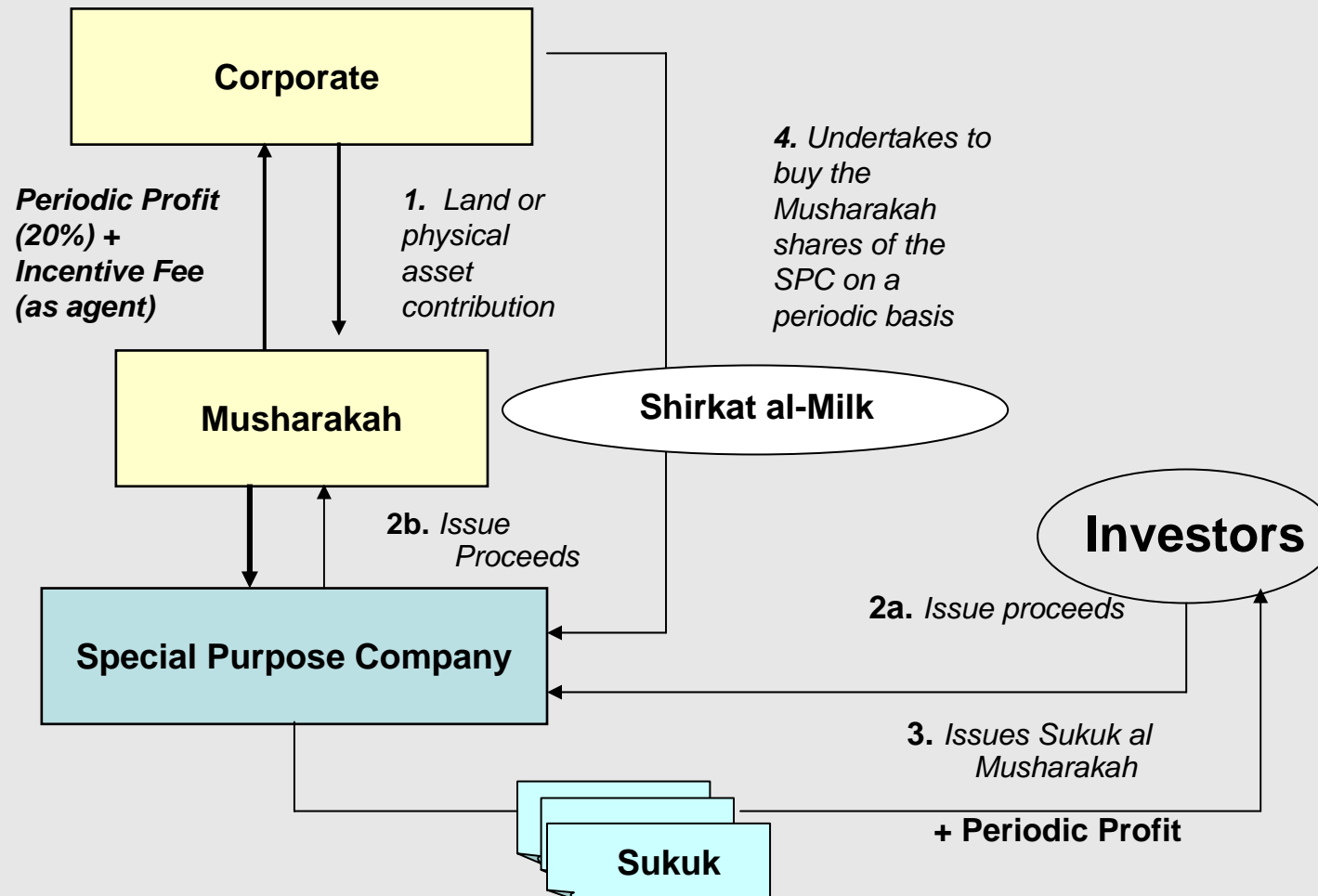
*Data as of Feb 2008; Includes both domestic & international issues
Source: DIFX*



Sukuk Al Ijarah



Sukuk Al Musharakah/ Mudarabah



Notable Transactions

<i>Ijarah</i>	<i>Mudarabah / Musharakah</i>
Bahrain – Kingdom of Bahrain USD250M	UAE – Dubai MCE USD200M
Qatar – State of Qatar USD700M	Bahrain – The Investment Dar USD100M
UAE – Tabreed USD250M	UAE – PCFC Development FZCO USD3,500M
UAE – Department of Civil Aviation, Dubai USD1,000M	UAE – Aabar Sukuk Limited USD460M
Bahrain – Durrat Al Bahrain USD152.5M	Kuwait - National Industries Group RM1,500M
Pakistan – Republic of Pakistan USD600M	Malaysia - Time Engineering RM566M

UK, Japan, China reported having Sukuk issuance in the pipeline.

