



# AN INTRODUCTION TO ISLAMIC FINANCE

Thursday 23 April 2015

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Lorraine Wheeler (First Names Group) - Chair

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Actions speak louder.

## ISLAMIC FINANCE PRESENTATION FOR STEP

23 APRIL 2015



### AIMS AND OBJECTIVES

- Current shape of the Islamic Finance market
- Introduction to Shariah
- Meaning of Riba
- Financing structures
- Investment Structures
- Investment Screening
- Shariah approval process
- Using Jersey vehicles
- Characteristic of Sharia Trusts and Wills

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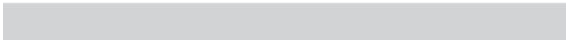
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ISLAMIC FINANCE MARKET

- Current size of global market US \$1.5 trillion
- Continued growth of 15% – 20% p.a.
- Demand fuelled growth
- Supply fuelled growth
- The role of the UK



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SHARIAH

- Purpose and role of Shariah
- Sources of Shariah
- Schools of Thought
- Presumption of permissibility
- Doctrine of Necessity
- Public Interest / facilitating ease



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RIBA

- Prohibition of interest
- Unfair dealing
- Maysir (gambling)
- Gharar (uncertainty)
- Two Layers of Compliance
- Trading verses Riba



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FINANCING STRCUTURES

- Murabaha – Cost plus financing
- Ijarah – Leasing
- Musharakah – Partnership
- Istisna – Manufacturing/development exception to basic conditions of existence, ownership and possession
- Salam – Forward financing

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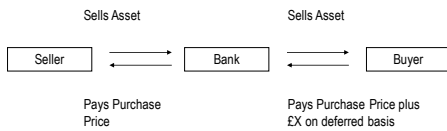
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MURABAHA




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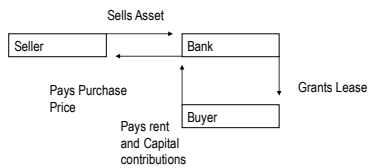
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IJARAH




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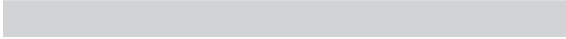
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INVESTMENT STRUCTURES

- Mudurabah – Investment manager
- Wakala – Agency
- Capital protected structures
- Sukuk – Islamic bonds




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INVESTMENT – THE INDUSTRY SCREEN

- SHARIAH RESTRICTIONS
  - INTEREST – funding arrangements that include traditional banks which charge interest
  - ALCOHOL – properties that include licensed premises
  - FOOD PRODUCTION – financing businesses engaged in production of pork products
  - TOBACCO – businesses which are involved in growing, processing or distributing tobacco products
  - GAMBLING – any business which includes an element of gambling
  - DEFENCE – business which are linked with weapons production directly or indirectly
- COMMONLY AGREED EXEMPTIONS
  - DE MINIMIS – if the revenue generated by the prohibited activity is less than 5% of the total revenue of the business being carried on at the property this will be acceptable.
  - CARVE OUT – if the revenue generated by the prohibited activity is greater than 5% it may be possible to structure the legal ownership of the property so that the pub etc part is excluded




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INVESTMENT – THE FINANCIAL SCREEN

- Debt/Market Cap <30%
- Cash Deposits/Market Cap <30%
- Interest and non-compliant income/Revenue <5%




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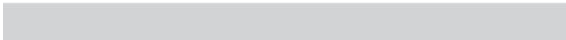
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SHARIAH APPROVAL

- Form Shariah Board – Auditing/Accounting
- Independent Board
- One-off approval
- Customer obtains approval




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CONCLUSION – JERSEY VEHICLES IN IF STRUCTURES

- Real estate investment structures
- Companies, cells and partnerships
- Tax, regulation and Shariah




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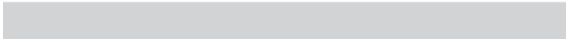
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CHARACTERISTICS OF SHARIA TRUSTS AND WILLS

- Waqf – trusts a familiar concept
- Generally discretionary during Settlor's lifetime
- **But** think about charitable giving (Zakat) – prescribed in Trust Deed or in side letter
- Amended Definition of Charity
- On Settlor's death specify exact Sharia distributions or use general clause importing Sharia laws that apply to Settlor's estate
- Trustees can rely on guidance from Scholar – on death or advanced clearance
- Beware – Reverter to Settlor clauses




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CHARACTERISTICS OF SHARIA TRUSTS AND WILLS (Continued)

- Investment Restrictions – Specific limitations on Investment Types, Family Investment Committees, Aim, Sharia compliant funds
- Similar issues for Wills - Law Society Guidance revoked
- Beware of the Daily Mail!

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THANK YOU FOR YOUR ATTENDANCE

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