

Islamic Finance *forum*

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The UK's plans to become the first western government to issue Sukuk have been dealt a major blow this past week. The recent departure of Ed Balls, who was the driving force behind the project, and technical problems in bringing in new legislation were cited as the reasons. However, some believe the potential lack of demand for low premiums such a highly rated Sukuk would return is a major factor in the U-turn. What does the UK, and other similar rated markets, need to do to ensure participation in Islamic finance?

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The UK would like to establish itself as a European hub for Islamic finance, and the licensing of Islamic retail – and now investment – banks is a significant move in this regard. With regard to Sukuk, importantly, almost all major Sukuk issues have had recourse to financial structuring and underwriting abilities of financial institutions based in such regulated markets. Hence, Ed Balls' departure should not necessarily be seen as a crushing blow to the UK's plan for Sukuk issues.

Regarding low Sukuk premiums, the view held by many investors is that the stability, and sound regulatory and rating frameworks present in the UK compensate sufficiently for the relatively low returns. Moreover, the new Sukuk-related legislation contained in the UK's Finance Act 2007 has been a significant welcome development, although further legislative improvements are needed to create an even more level playing field (e.g. double stamp duty arising when the underlying asset changes hands, etc).

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