

DEVELOPPING SHARIAH COMPLIANT BUSINESS IN LUXEMBURG

1

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WHY LUXEMBURG?

2

- Luxemburg may offer what Islamic Investors are looking for:
 - Diversification of asset quality
 - A wide range of asset classes (to meet demand)
 - A world wide recognized brand
 - easy distribution in the 27 E.U. countries and high recognition in Asia

WHAT IS THE INVESTOR LOOKING FOR?

3

RATING

TRANSPARANCY

LOWER COSTS

SOLUTIONS

LUXEMBURG SHOULD BE CONSIDERED AS A PLACE TO DEVELOP SHARIAH PRODUCTS FOR:

4

- Middle Eastern institutional investors
- Conventional
- Pan European retail clients (UK, France, Italy, Germany)
- HNWI
- Mass affluent European

10 KEY FACTORS FOR SUCCESSFUL INTERNATIONAL BUSINESS GROWTH AND PRODUCT INNOVATION

5

1. Security of quality, adapted legal framework
2. World-class infrastructure and service providers
3. Ideal and neutral gateway to Europe and other markets (Asia)
4. Political, fiscal, social stability
5. Declared governmental support to develop Islamic finance products
6. More than 20 years of experience dealing with leading global funds providers
7. Largest hub for cross border distribution funds
8. Recognized quality brand developing outside EU (Asia, Latin America ...)
9. International, Multi-cultural, Multi-lingual workforce
10. Short reaction time to implement innovation

WHY STRUCTURING YOUR INVESTMENTS THROUGH LUXEMBURG?

6

- Leveraging the expertise of the Second largest Fund industry in the world (USA n°1)
- Wide choice of investment vehicles and transaction structuring
- Modern, pragmatic, flexible, regular framework
- Tax neutrality

LUXEMBURG MODEL BASED ON:

7

- proven success on a large scale of financial engineering infrastructure
- world leadership in cross border distribution
- tailor made solutions



- REGULATION AND EXPERTISE
- FLEXIBILITY
- TAX NEUTRALITY

THE LUXEMBURG FUND INDUSTRY

8

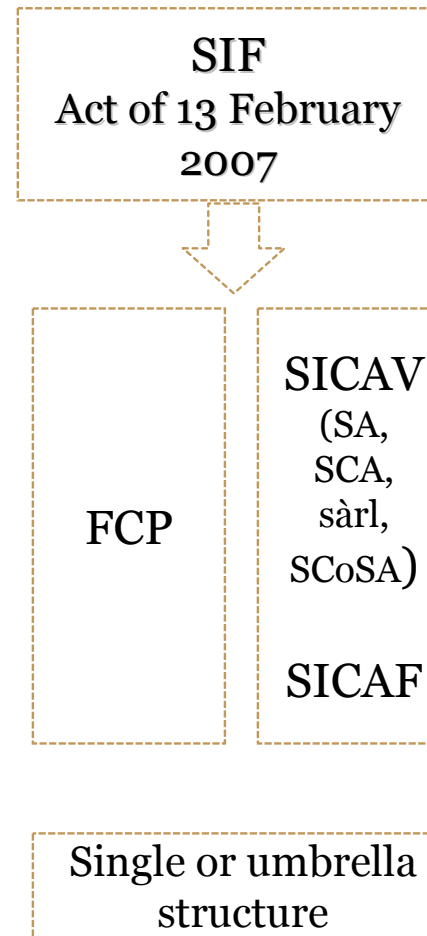
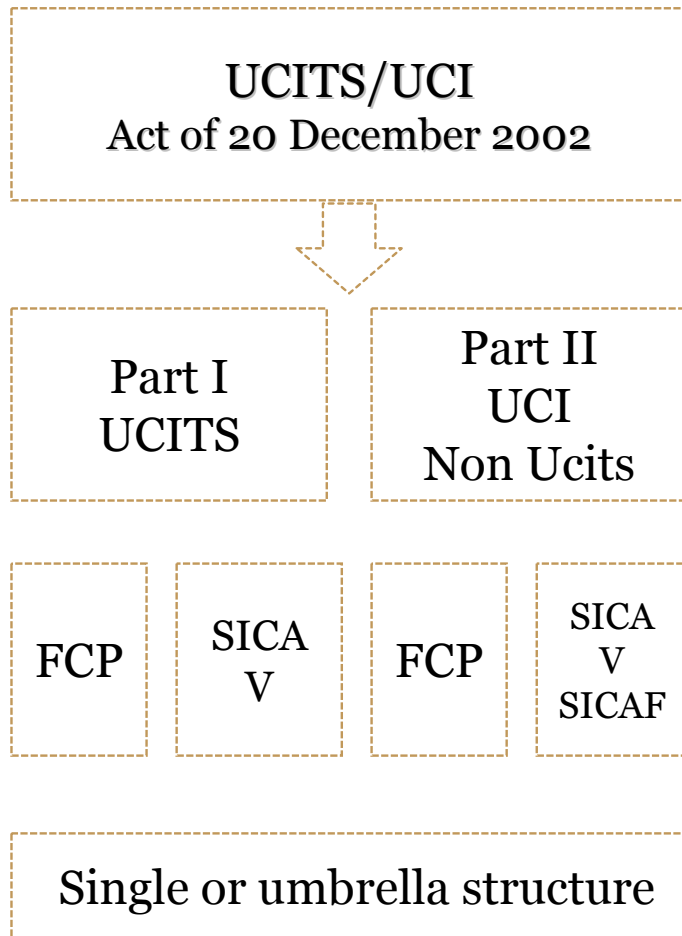
Registration of Funds

- In 2004 202 Funds
 - In 2005 266 Funds
 - In 2006 345 Funds
- } 813 Funds
- In 2007 824 Funds
 - In 2008
(from 1 January 2008 until 31 October 2008) 555 Funds
 - 14 Sukuks listed with combined value of 5,5 billion of U.S dollars listed at the Luxemburg stock Exchange
 - 39 Shariah compliant funds.
 - In 2009 (31.03.2009)
 - 42 Shariah compliant Funds (Funds and sub-Funds)

LUXEMBURG WIDE CHOICE OF INVESTMENT VEHICLES

9

- **Regulated UCIT's (Vehicles accepted by regulatory authorities)**
 - SICAV - Investment Fund with Corporate Personality with variable share capital
 - SICAF – Investment Fund with Corporate Personality with fixed share capital
 - FCP – Mutual Fund
- **Semi Regulated**
 - SIF – Specialized Investment Fund
 - SICAR – Venture Capital & Private Equity Company
- **Unregulated**
 - SPF – Family Wealth Management Company
 - SOPARFI – Fully Taxable Holding and Financing Company
 - Securitization Vehicle under certain conditions



REGULATED UCITS (The Law 20th.12. 2002)

11

- SICAV / SICAF
 - Status regime (1915 Company Law)
 - Benefits from the corporate structure with the flexibility of daily liquidity to its shareholders
 - Participants benefit from corporate shareholder right
- FCP
 - Co-ownership of assets managed by management company
 - Contractual structuring flexibility
 - Tax transparencies: no treaty benefits

With or without multiple compartments

REGULATED ENTITY WITH LIGHT DEGREE OF REGULATION

12

The main feature of a SICAR (The Investment Company in Risk Capital)

A SUCCESSFUL RESPONSE TO INSTITUTIONAL INVESTORS NEEDS

- Purpose: encourage investment in risk capital
- Law dated June 15, 2004/ October 28, 2008
- Legal form: limited partnership (SCS) or limited companies (SA, Sàrl, SCA)
- Umbrella structure is allowed (Law October 28, 2008)
- Minimum share capital: Euros 1.000.000. to be reached within 12 months
- Eligible investors: the well-informed investor (investment of Euros 125 000 at least or a bank certifies this status)
- Prior authorization and supervision by the CSSF
- Eligible assets: risk capital

SEMI-REGULATED

The main features of a Specialised Investment Fund (SIF)

13

- **A TAILOR MADE FUND RAISING VEHICLE**

- Goal: more flexibility for Investment funds
- Legal form: Fonds Commun de Placement (FCP, mutual fund) or a Société d'Investissement à Capital Variable (SICAV) or a Société d'Investissement à Capital Fixe (SICAF)
- Generally, SICAV & SICAF may adopt the legal form of a SA, SCS, SCA or a SARL
- SIF may include different compartments so that an umbrella fund is possible
- Minimum capital: subscribed share capital of Euros 1.250.000 to be reached within 12 months of authorization
- Investor: the well-informed investor (incl. HNWI), institutional Investors and Professionals

SEMI-REGULATED

The main features of an Specialised Investment Fund (SIF)

14

- **A TAILOR MADE FUND RAISING VEHICLE**
- Prior approval from the CSSF is not required but approval ex post and supervision by the CSSF
- Eligible assets: investment in risk capital or any other assets (real estate, LBO, hedge funds, money market funds etc...)
- Audited annual report
- No European passport (outside the scopes of E.U. savings tax directive)
- Tax regulation:
 - Fixed capital duty of Euros 125.000 payable upon incorporation
 - NO corporate income tax and no net worth tax
 - NO WHT on dividend distributions and liquidation proceeds
 - NO subscription tax (0,0%)
 - Limited access to double tax treaty
 - No benefits from the parent – subsidiary directive

UNREGULATED

The main features of the SOPARFI

15

- **GOAL:** an ordinary corporation whose aim is not only the management of participation interests in Luxembourg or foreign corporation, but also the conduct of any other business or activity
- The SOPARFI is most used as a holding structure for majority participation, sometimes combined with foreign corporation (French, Belgian, Chinese, Hungarian, etc...)
- **LEGAL FORM:** SA, SARL, SCA, SC
- **SHARES:** possibility of bearer shares
- **INVESTORS:** No restriction on the eligibility of investors or investments

PLATFORM OF ISLAMIC FINANCE

16

- MALAYSIA
- OFFSHORE JURISDICTIONS (Cayman Islands, B.V.I., Malta, Cyprus)
- EUROPE (Luxemburg, Ireland, Switzerland, United Kingdom, France)

Structuring Pan-European investment of Shariah compliant funds in Luxemburg

17

- UCITS (European Passport):
 - Easy access to 27 countries
 - Brand name in 70 countries
- Non UCITS (case by case agreement): SICAV- SIF
 - ↳ Private Equity
 - ↳ Real Estate
 - ↳ Money Market Investments

Including Islamic activities:

- Cost-plus-sales or purchase finance (*Mudaraba*)
- Leasing (*Ijara*)
- Trust financing (*Murahaba*), and
- Equity participating (*Musharaka*)
- Agency contract (*Wakala*)
- Islamic bonds / certificate (*Sukuk*)

Eligibility criteria to be checked on case by case basis

FINANCIAL INSTRUMENTS PROHIBITION TO BE RESPECTED IN SHARIAH COMPLIANT FUNDS

18

- Investment in interest bearing instruments
- Interests-based instruments/ accounts
- Use of financial derivatives or warrants
- Short selling
- And any other not-Shariah compliant activity

SHARIAH COMPLIANT FUND STRUCTURES HAVE TO BE RESPECTED UNDER LUXEMBURG LAW:

19

- Shariah compliance:
 - ✦ to its policies, activities and investments,
 - ✦ investment Shariah compliant

Under supervision and guidelines established by the
Shariah Board

- Purification of dividends (defined in prospectus):
 - Shariah ratios
 - Disbursed as charitable donations to be approved by
Shariah board

INVESTMENT OBJECTIVES AND POLICY (Articles of incorporation)

20

- As imposed by the 2002 Law (Luxemburg investment requirements must prevail)
- AND
- Compliant with written guidelines relating to the Shariah investments principles
 - The fund will be run within the Shariah principles interpreted and laid down by the Shariah board, and provided to the Board of Directors and the Management Company.

PROSPECTUS

21

- To be mentioned:
 - The investment policy
 - Shariah Investments restrictions
 - The limited universe of stocks available
 - Prohibition of the use of interest bearing in investments
 - Purification proceedings
 - Costs of donations to be approved
 - NAV calculation / Pricing
 - Shariah Board (Description)
 - The accounting treatment
 - Screening proceedings

MANAGEMENT

22

- **BOARD OF DIRECTORS / Management company**
- **SHARIAH BOARD / Independent Shariah Scholars**

- Management supported by a Shariah Board:
 - ✦ Shariah compliance
 - ✦ Advisory agreement

- The Shariah Board will oversee the operations of the fund and ensure its compliance with Shariah precepts:
 - ✦ Example: study of fund prospectus, use of investment techniques and instruments, advising the Board of Directors.

SHARIA BOARD

Guidance and Supervision

23

SHARIA BOARD ENSURES THAT THE PRODUCTS ARE SHARIA COMPLIANT:

1. Reviewing the product concept description created by the product development team
2. Reviewing market conditions identified by the product development team
3. Reviewing the product development team's views on Islamic principles
4. Reviewing the product development teams proposals and issuing its opinion (*Fatwa*)
5. Discussion between scholars and product development team

ACCOUNTING - AUDITING


24

1. LUX G.A.A.P., I.R.F.S. regulation, A.A.O.I.F.I.
2. External Audit (to be foreseen by prospectus), and Shariah audit (optional)
3. To be defined: Responsibility for monitoring Shariah compliance

CUSTODY AND BANKING

(Administration agent, central paying agent)

25

- Custodian operate in respect of Shariah principles
- Prohibition of interests  purification proceedings
- Segregation proceedings
- Financial report has to respect Shariah principles (no interest, no debit or credit)

LUXEMBURG TAXATION

26

- No liability to Luxemburg tax on profit or income
- No liability to Luxemburg withholding tax for dividends
- Liability on Luxemburg tax of 0.01% per annum of the net assets
- No wealth tax
- No stamps duty on other tax to be payable in Luxemburg on the issue of Shariah
- Capital duty: 1.250.- Euros


TAXATION OF SHAREHOLDERS

27

- Principally, no taxation on capital gains in Luxembourg
- Double taxation agreement: excellent double tax-treaty network
- Case by case

STRENGTHS: Vehicles (1)

28

- UCIT'S Part I (European Passport)
- Non UCITS, SIF (lightly regulated)
 -  offers a large range of investments structured in a Shariah compliant manner
- Luxemburg as an intermediate holding country (hub) for Middle East based Shariah compliant funds:
 - ✦ Pan- European distribution (UCIT'S – SICAV)
 - ✦ Targeting the Asian Fund Market (SICAV – Part.II)



AIMING:

Retail Market

Asset Management

Institutional

HNWI

STRENGTHS : Market (2)

29

- Large scale of financial engineering structure ensures that Luxemburg is today a top attractive place for nearly all types of Investors
- The Legal Framework very often Tailor-made allows all the flexibility, the control and the comfort that an investor can expect
- Large Potential opportunities through regulated, lightly regulated or not regulated vehicles
- Full ranged service providers: custodian bank, central administrator, distribution network, domiciliary agent and paying agent, register and transfer agent

STRENGTHS: Target (3)

30

- Target markets: Middle East, Asia, Emerging Markets
- High regard of Asian investors to Luxemburg funds
- Proximity to Muslim population (France, Germany: 9 mln)

STRENGTHS: Future (4)

31

Positive evolution to Islamic Finance:

- 2009:

- 14 Sukuks listed with combined value of 5,5 billion of U.S dollars listed at the Luxemburg stock Exchange

- 42 Shariah compliant funds (End 2008: 36)

Full Support of Luxemburg Government, Central Bank, ALFI and Luxemburg For Finance

STRATEGY TO DEVELOPP

32

- Negative screening (avoidance)
- Positive screening (Investment in responsible business practise)
 - ✦ Best –in-class
 - ✦ Thematic Investment
- Engagement /integration



Prominent role of Shariah Board

RISKS  **CHALLENGES**
Interaction Luxemburg best practice and local practice

33

**HUMAN
RESSOURCES**

Scholars, competence on service providers, Expertise

COVERAGE

The right product: ethical- profitable

DISTRIBUTION

Low average size of Islamic Funds (+/-45 mln \$)

Need to be increased to compete on an international platform

OPERATIONAL

SUKUK ISSUE

Eligibility of the assets

CONCLUSION

34

Full governmental and Central Bank support

Legal framework, investment vehicles compatible with Islamic finance

THANK YOU

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