

Islamic Finance: The Challenges for European Regulators

Peter Casey

Director, Policy and Head of Islamic Finance

19 January 2010

The first issue: tax

- Removal of unnecessary obstacles (e.g. Islamic mortgages, sukuk)
- Problems are technical – and political

The European regulatory context

- Most European regulation determined by Directive, in the interests of a single market
- For example:
 - MiFID
 - Solvency II
 - Capital Requirements Directive
- Member states have to adopt
- New structure will reinforce consistency of application
- Reinforced by Financial Stability Board

The key regulatory issues

- Disclosure
- Prudential
- Shari'a governance

- Where Islamic products are different, different disclosures may be appropriate. For example:
 - Distribution of Takaful surpluses
 - Returns smoothing for PSIAs
 - Sukuk structures
- In general problems are largely technical
- Avoidance of *Gharar* is helpful

Prudential regulation

- Some distinctive problems. For example:
 - How should PSIAs be treated for capital purposes?
 - At what level(s) should solvency tests be applied to a Takaful firm?
- How much flexibility exists within the Capital Requirements Directive or Solvency 2?
- Passporting raises the possibility of challenge
- Natural reaction will be to force Islamic finance into conventional patterns

The special challenges of liquidity

- What instruments are available for routine management of liquidity?
- What instruments are available for intervention?
- What about deposit insurance?

Three positions around the world:

- Not our business
- Direct Shari'a regulation
- Shari'a systems regulation

Can different regulators take different positions within the Directives?

The special challenges for Europe

- How can Islamic instruments be accommodated without being forced into conventional moulds?
- May fly under the radar for a time ..
- But will eventually need a European approach
- Where is the Commission?



Thank You

Dubai Financial Services Authority

www.dfsa.ae
info@dfsa.ae
+971 4 362 1500

