Italian banks fast embracing sustainable and environmentally friendly investments

ITALY

By Stefano Loconte

Environmental, social and governance (ESG) factors are rapidly arising in investors' awareness worldwide and expected to grow in the Islamic finance industry due to a strong link between the two.

ESG are three central standards used in a company or business to measure its sustainability and the societal impact of its investment. Environmental refers to issues like resources, climate change, waste and pollution. Social refers to the treatment reserved for communities' wellbeing and health issues, while governance refers to policies that deal with internal company affairs and a company's relationship with the main stakeholders, including its employees and shareholders.

Such sustainable notions also exist in Islamic finance and the size is reportedly substantial. For example, Waqf, which is a donation of an asset or cash for religious or charitable purposes with no intention of reclaim, is construed as a type of socially responsible financing. Therefore, it is possible to imagine the thin alignment between the Islamic finance industry and these sustainable factors.

In Italy, this approach is spreading fast among the banks and in the financial sector, by strongly encouraging remuneration policies in exchange for the promotion of diversity and sustainability.

For example, in 2019, Euromobiliare Asset Management SGR, which is a branch of Credem Group, launched an equity fund that invests in companies operating in sustainable sectors such as real estate and energy. Also, Banca Generali has implemented new sustainable services and products on an online management portfolio platform while Unicredit has started a partnership for the launch of green bonds provided by European issuers.

Sustainability, equality and a clean environmental record are the essential factors of financial performance and savvy investors are starting to embrace them. It is now evident that this view is strengthening, particularly in Europe, where several investors have already adopted or are currently developing a responsible investment policy.

In such a scenario, sustainable investment funds are confirming their efficiency in managing underlying risks and delivering more resilient returns because they support and finance companies that are preserving the wellbeing of the planet and the community.

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Tax neutrality for Islamic banking transactions in the Philippines

THE PHILIPPINES

By Rafael A Morales

The Bureau of Internal Revenue (BIR) has issued Revenue Regulations No 17-2020 (the Revenue Regulations) to implement the tax neutrality provisions of the Islamic Banking Law (Republic Act No 11439). This is designed to provide a level-playing field in terms of taxation between Islamic banking and conventional banking, such that Islamic banking transactions will not be disadvantaged tax-wise compared with their conventional counterparts. In the language of the Revenue Regulations, Islamic banking transactions are to be taxed "no more heavily (and no more lightly) than conventional banking transactions".

The following principles are set forth in the Revenue Regulations:

(a) the tax treatment of Islamic banking transactions will be "based on their economic substance rather than their form"

(b) where an Islamic banking transaction is "economically equivalent to a conventional bank product, the tax treatment of the two should be the same"

(c) "gains or profits received and expenses incurred in Islamic banking transactions" will be the equivalent of "interest income and/or expenses under conventional banking transactions"

(d) any reference to a disposal or lease in the National Internal Revenue Code will not apply to any disposal or lease in an Islamic banking transaction "provided that the resulting tax effect on the Islamic banking arrangement wou ld approximate or be similar to that applicable to the corresponding conventional banking transactions", and (e) an additional instrument required for the purpose of compliance with Shariah principles but is not required in a conventional banking transaction will "be deemed excluded for taxation purposes".

The following Islamic banking arrangements will be covered by a separate Revenue Memorandum Circular, namely: Murabahah (profit disclosed sale), Tawarruq (commodity Murabahah), Salam (sale with deferred delivery and spot payment), Ijarah (lease), Mudarabah partnership (profit-sharing partnership), Wakalah investment (investment agency), Istisnah, Musharakah, Sukuk and other Islamic banking transactions with economically equivalent conventional banking transactions.

An Islamic bank is required to ensure that its financial statements are prepared in accordance with the Philippine Financial Reporting Standards. On the other hand, a conventional bank with an Islamic window must segregate its Islamic banking transactions from its conventional banking business.

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