Italian companies should participate in Shariah compliant indices

ITALY

By Stefano Loconte

The massive presence of the Islamic community and the active operation of Islamic sovereign funds in Italy represent a good opportunity for Italian intermediaries and issuers to attract savings and capital. This would also present Islamic investors with more varieties of investments and guarantee a new way to access financial products and services in Italy.

As such, it is crucial to underline the obstacles against the possibilities of Italian issuers and intermediaries offering financial products to Islamic investors.

Italian listed companies should consider obtaining access to Shariah compliant financial indices created by global indices like Dow Jones Islamic Market Indices, FTSE Shariah Global Equity Index Series and S&P Shariah Indices.

It is a known fact that non-Islamic listed companies in stock indices also include Shariah compliant companies to increase liquidity in the secondary market as they can attract investments from Islamic investors during a capital increase procedure or an IPO.

As such, this would pave the way for non-Islamic listed companies to receive investments from Islamic sovereign funds.

The possibility to be included in Shariah compliant indices depends on the different criteria used based on the industry and financial screening.

Among the Italian companies included in the Dow Jones Islamic Market Indices are Luxottica, Moncler, Tod's and Salvatore Ferragamo; and Enel, Eni, Exor, Pirelli and Prysmian in the FTSE Shariah All World Index.

There are many more Italian companies which are still not aware of the huge advantage they can get through participation in Shariah compliant indices.

Hence, the public should be well informed about such opportunities and the aim for the nearest future is to encourage more Italian companies to take part in these Shariah compliant indices.

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What purpose will the UK's sophomore Sukuk serve?

THE UK

By Dr Scott Levy

The highlight of this article should be about the UKs impending sophomore Sukuk. Announced recently, it is long expected and will no doubt be oversubscribed across the nine participating banks. It is no surprised that all the major markets are covered and also that there is no committed timetable on the offering or the size.

Given the current near zero rates in the market, it will be interesting to see just how low the rate is. With fears of inflation on the horizon, issuing at or around the previous rate of 2.04% could be a tricky one for investors to hold for the full five-year maturity.

Yes, there is a shortage of high-quality liquid assets which makes a sellers' market but the real cost of this issuance could end up being much higher if rates move, values drop and the capital treatment has to be recalculated in line with falling face value. If the issuance size is as small as the last one, then the spread of participating banks will mean that very few investors will actually take up the entire issue.

At the end of the day, if the demand is there (as in the last issuance) why would the UK not take advantage of the current market and issue GBP1 billion (US$1.37 billion) or more? Did the plans of the structuring agent actually consider how to upsize the deal on demand? That is the job for which HSBC has been paid very well (a GBP1.5 million (US$2.06 million) budget); all will be revealed soon. Maybe. Potentially. Subject to market conditions.

And if it does, will we see a downstream effect on the overall economy or even some specific use of proceeds which can further encourage the development of the local Islamic finance marketplace? I think the obvious answer is no.

For aspiring UK entrepreneurs who are looking to develop the domestic market for Islamic finance (many of which I have written about here), this government Sukuk will have impact. One interesting gap in the UK domestic landscape for Islamic products is the apparent gap in the current crowdfunding rules which allow for a commodity Murabahah to be included in an Innovative Finance Individual Savings Account (IFISA).

IFISAs were a product of the extension of the taxable savings rules to crowdfunding in 2015; it seems rather odd that a Shariah version of SME financing (which is big business across the UK and Europe) would somehow not be compliant with the tax rules.

Some further investigation will be done on this as it particularly impacts businesses like Qardus whose successful fundraising campaign could have a much wider appeal if this seeming anomaly in the tax rules is resolved.

At the other end of the spectrum, long-established asset management business Prestige Funds's recent launch of the Premium Alziraea Fund has the potential to make a significant impact. The fund is focused on renewable energy provision; currently over one million UK homes are within the portfolio of Prestige Funds. With a potential pipeline of GBP500 million (US$685.44 million) of opportunities, as a potential green Sukuk issuer, this might just show the UK government what it should be doing with its expensive and long-winded Sukuk issuance platform.

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