

Trade relationship between the UAE and Italy grows stronger



ITALY

By Stefano Loconte

The growing and long-standing relationship between Italy and the UAE deserves a brief examination since the UAE represents one of the main partners for Italy in terms of political, cultural and scientific perspectives based on the strong bilateral relations between the two countries.

The first Italian Cultural Institute in the Gulf inaugurated in Abu Dhabi in June 2021 has created a scientific cooperation that benefits economically from the presence of numerous Italian researchers in the UAE.

In 2020, as far as the value of trade is concerned, with EUR8.4 billion (US\$9.47 billion), Italy has become the 8th trading partner for the UAE and the first among EU member states. In terms of exports, Italy improved in 2020 by moving up from 11th to 9th among the UAE's suppliers and was the second among



EU member states after Germany. As a consequence, the UAE has become the leading supplier and the leading market in the MENA region for Italy.

It is worth mentioning that there are more than 600 Italian companies in the UAE that consists of large organizations and SMEs, active in sectors like construction, energy, consumer goods, security/defense, banking/insurance and aerospace. Statistics also point out that there are currently 15,000 Italian expatriates living and working in the

UAE, engaged in the aforementioned industries.

The strong relationship and the consistent presence of Italians in the UAE could represent a great opportunity for UAE Islamic financial institutions and its economy in general.

It is true that in the case of non-Muslim clients, the habits of western banking schemes can create difficulty in the compatibility of the distinctive aspects of Islamic financial institutions but, even if it is not simple to overcome these issues, an attempt must be done by both parties.

The liquid savings of the Italian community coupled with greater social integration could contribute in enhancing the UAE's role in the Middle East and on a global level. ☺

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Physical delivery or cash settlement in Sukuk Salam?



IRAN

By Majid Pireh

Sukuk Salam are one of the most important mechanisms for financing companies in compliance with Shariah principles. While they are based on a sale contract, Sukukholders will have the role of the purchasers and the issuer will be the seller in the contract.

As a fundamental rule, the price will be paid at once at the start of the contract and the underlying commodity will be delivered at a specific time in the future.

In its traditional form, the purchaser will physically receive the assets on the due date or he/she may transfer it to a third party after the maturity date.

Moreover, the purchaser may look to settling in cash and once the contract is completed this way, the assets will be transferred to a new purchaser who might be the initial seller!

Nevertheless, in the financial markets, investors normally do not desire physical delivery of the assets and they prefer to have their position settled in cash.

This fact raises a critical issue: how might the final rate of return be hedged? In other words, since in most cases Sukukholders are purely financial investors, they search for two notable components at once: 1) the rate of return and 2) how the rate of fluctuations may be hedged.

In order to find an answer to the second component, the country's capital market regulator initiated a new plan to embed a Shariah compliant option contract into Sukuk Salam. The option should hedge the rate of fluctuations for both the investors and the seller (ie the issuer).

Subsequently, there are two embedded options which are the call and the put. While the call option covers the rate of fluctuations risk for the issuer, the put

option controls the rate of fluctuations risk for the investors.

Herewith, the Shariah committee of the Securities and Exchange Organization of Iran emphasized that the exercise prices of the two options should be notably different in order to avoid some Shariah-related risks.

And now the question is: "How should the two exercise prices be determined so that they are notably different?" The question is still on the table and while Islamic finance experts have proposed some ideas, there are many concerns about determining the two prices.

We are still working on the topic and hope that the final solution will bring more added value to the market in compliance with Shariah principles. ☺

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