Islamic Finance *news*

DUBAI ISLAMIC ECONOMIC ROUNDTABLE

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Dubai as the world's capital of Islamic Economy: The roadmap ahead

Panelists

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Abdulla Mohammad Al Awar was appointed as CEO for the Dubai Islamic Economy Development Center in December 2013. Prior to this he held a number of senior positions in the Dubai government. He was appointed CEO of the Dubai International Financial Center (DIFC) in 2009, and was instrumental in developing, overseeing and implementing the ambitious business strategy of the center and cementing its international reputation.

Prasanna Seshachellam is the director and head of Islamic finance for the DFSA, and is responsible for the supervision of prudential risks faced by all authorized firms operating in the DIFC. He has specific emphasis on the banking and insurance sectors, including the supervision of credit rating agencies and registered auditors in the DIFC. He leads the Islamic Finance Initiative of the DFSA, and represents the DFSA in the Technical Committee of the Islamic Financial Services Board. Prasanna was formerly with the Office of the Superintendent of Financial Institutions in Canada.

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Dr Amat Taap Manshor is the CEO of the Malaysia-based Finance Accreditation Agency (FAA), an international and independent quality assurance and accreditation body for the Financial Services Industry supported by Bank Negara Malaysia and the Securities Commission Malaysia (SC). Previously Dr Manshor was the chief accreditation officer and senior director at the Asian Institute of Finance where he was responsible for the development of the FAA Quality Framework (FQF) and FAA Learning Criteria (FLC) for the financial services industry. He is also an expert panel member of the finance and accounting standards committee under the Malaysian Qualifications Agency, an agency of the Malaysian Higher Education Ministry.

Dubai as the world's capital of Islamic economy: The roadmap ahead

On the 30th April 2014, a group of leading industry experts gathered at the Dubai International Financial Center (DIFC) to discuss the strategy and prospects for Dubai to drive its ambitions as a global capital of Islamic economy.

In October of last year Dubai's ruler, Sheikh Mohammed bin Rashid Al Maktoum, announced a three-year program to promote Dubai as the leading global center for the Islamic economy, based on a framework of seven key pillars and supported by 46 strategic initiatives.

While the development of Dubai as a hub for Islamic banking and finance is central to this objective, the reach goes far beyond this to encompass a holistic synergy between every aspect of the Islamic economy.

Islamic Finance *news* was delighted to bring together Abdulla Mohammad Al Awar, Prasanna Seshachellam, Bashir Ahmed and Dr Amat Taap Manshor, in the first of the seminal Dubai Islamic Roundtable series (in partnership with the Dubai government, Dubai Economic Council and the DIFC) to discuss their views on the roadmap towards achieving this ambitious goal.

The result was a rewarding critical dialogue spanning crucial issues surrounding regulation, competition, standardization and integration; and evaluating Dubai's position both regionally and within the wider global arena. We are proud to bring you a unique perspective on this ambitious initiative, which offers honest, objective and unparalleled industry insight from some of the most important players in the field.

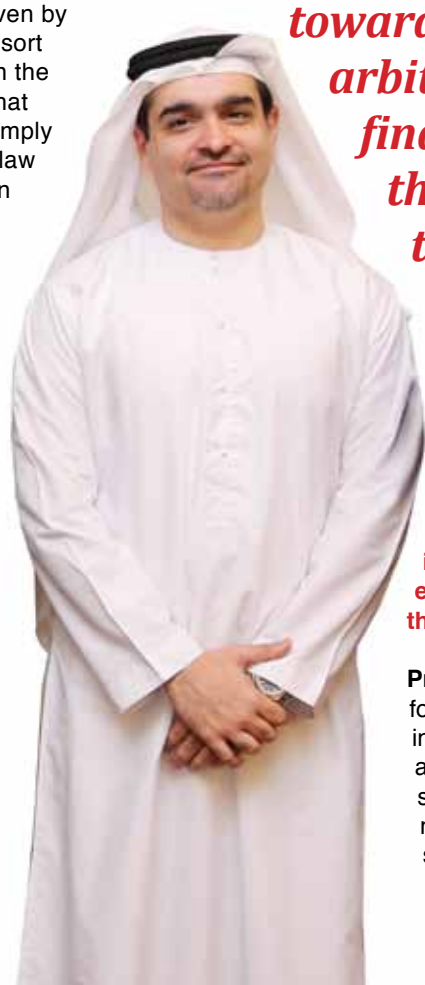
IFN: What is the Islamic economy, and what do we mean by that and what does it cover? Abdulla, perhaps if we could pass that to you straight away?

Abdulla: Thank you. Well, the term itself is quite broad. In my opinion the Islamic economy comprises economic activities and commercial activities that are compliant with Islamic law – but also naturally accommodate all the relevant sectors of the economy that are driven by the Muslim population's adherence to some sort of a faith-based activity that has an impact in the market. In my opinion its attributes are not that different from any economic ecosystem. It simply addresses the Shariah element and Islamic law in conducting the activities – whether they on the supplier-side, the distribution side or the consumers' side.

Prasanna: I think Abdulla sums it up nicely, and that is close to [the DFSA] view as well. Although we are focused very much on the financial services element, we do recognize that this has to be seen from a holistic perspective, as an ecosystem. However this does emphasize the importance of Dubai's role as a hub for financial services, because this ties in and drives every other element.

Amat: The other thing I would add is that when we talk about the Islamic economy, the whole ecosystem is affected by Islamic values and business practices. This encompasses everything – as Prasanna just highlighted. The entire value chain of the financial sector, tourism, lifestyle, even specific products – pharmaceutical, food as well as media. And to a certain degree, this must also include education, which is a fundamental part of the Islamic economy that cannot be ignored.

> ***"At the moment we all look to London, and really that doesn't make sense when we could be looking towards Dubai. Perhaps arbitration in Islamic finance is something that the DIFC could take the lead on"***



IFN: What are the initiatives that Dubai has set in motion to promote itself as a hub for the financial economy, and how successful have these been so far?

Prasanna: We have been very much focused on the role of financial services in the Islamic economy, given our role as a financial regulator. And we have seen the biggest successes in the capital market area. We have seen considerable success in the reception of Sukuk, and

the role of Dubai and the DIFC's role as a Sukuk marketplace. The second area is the Takaful business, which is really catching on. Relatively speaking, these areas are well ahead.

We would be happy to put more initiatives, more effort in areas like Islamic banking. But this would have to fit in with other aspects, and how you can drive demand in those areas – which is consistent with the whole Islamic economy and the values of the Islamic life-style. I think it needs to be more customer-demand driven

IFN: One of the big developments has of course been the Dubai Islamic Economy Development Center that was launched last year. What drive can we expect from there?

Abdulla: Well, we have identified seven sectors in which we intend to launch a series of initiatives to accelerate Dubai's development as a capital of Islamic economy. In addition to Islamic finance, these strategic pillars cover the Halal products sector, in which Dubai intends to become the trusted name and solution provider across various sections of the Halal products industry; making Dubai a destination of choice for family-friendly, Islamic tourism; attracting innovators and entrepreneurs in the field of the digital economy and creating a platform to develop new technology that addresses Muslim needs; Islamic fashion, design, and the arts to address the lifestyle segment; the knowledge sector, which encompasses education, talent development, the creation of global database of information and training; and last but not least standards, which are crucial in identifying the parameters of the entire industry.

In terms of initiatives, a good example is the Dubai Global Sukuk Center,

> *"The regulatory outcome is more important – we can outline the major elements but the regulatory approach doesn't matter as long as you achieve the right regulatory outcome"*

which was announced in February 2013. The intention was to position Dubai as the leading hub for the listing of Sukuk. There is definitely progress being made there – at the time of the announcement the value of the Sukuk listed on the DFM and NASDAQ Dubai was around US$9 billion – that figure is now around US$19.6 billion – so there has been significant growth.

Another initiative on the knowledge pillar was established in August last year, with the creation of the Center for Islamic Banking & Finance as a division within the Hamdan bin Mohammed Smart University. That center will offer postgraduate degrees in Islamic finance, in addition to conducting research. In the Halal sector this year, in February, the Dubai Industrial City and the Jebel Ali Free Trade Zone both dedicated spaces to be Halal zones offering a series of incentives to attract Halal companies to come and produce and distribute using Dubai as a hub.

IFN: Bashir, from a practitioner perspective, how have these initiatives influenced the industry – have you seen an impact?

Bashir: We have certainly seen a change. One initiative I would specifically like to mention: Dubai has for several years had a center for reconciliation and arbitration in Islamic finance disputes. Quite frankly I don't know how effective it has been, as it seems to be fairly small – but there has been a re-launch at a much grander level, called the World Islamic Finance Arbitration Center, with an attached Jurisprudence Office, which will deal with dispute resolution. As that has just been launched we haven't seen what it is up to yet, but it will hopefully make an impact in the sector, and will enable better dispute resolution, which is what a lot of practitioners would like to see.

Abdulla: Our aim, on arbitration, is to make Dubai a leading center for Islamic arbitration and promote Islamic arbitration as an alternative to conventional arbitration, especially, but not exclusively for Islamic companies, or those practicing Islamic economic activity. The statistics show that firms use the court systems to manage commercial disputes, where arbitration could be an effective alternative. The Islamic Center for Arbitration and Reconciliation and the International Islamic Arbitration Center are both not-for-profit organizations that are hosted by the UAE. When Dubai announced its strategy to become the capital for the Islamic economy, they have shown a great deal of interest to help promote that aspect. In my opinion there is room to develop a platform whereby encouragement for institutions to adopt Islamic arbitration within their contracts is one of the key targets.

> ***"Historically speaking there have always been differences of opinions in Shariah. We have sects in Islam, we have different schools of thought – you will never change that. But what we can do is have a minimum agreement on what is acceptable and what is not acceptable, achieved through mutual recognition"***

Bashir: It is one of the biggest problems that we face, particularly within large syndicated finance transactions, which can run into hundreds of millions of dollars. Invariably the documentation is subject to English Law – somehow London appears to be the best place to adjudicate any disputes. There will be a Sukuk issuance under English Law but other offshore jurisdictions are involved. There will be assets located in the Middle East and offshore corporate vehicles. So you have a whole play of different jurisdictions. And that causes problems – we recently saw a judgment in the English courts regarding an Islamic bank from the GCC where the court looked at the jurisdiction clause (which typically says that the agreement will be governed by English Law subject to the principles of Shariah). An English high court judge will not be familiar with the principles of Shariah. The court ruled to the effect that you cannot have an agreement governed by two bodies of rules. It must be governed by one set of laws only, and English law will prevail.

So you have these issues, and I think something like the body that is being set up here will give Dubai a tremendous advantage for dispute resolution at this level. At the moment we all look to London, and really that doesn't make sense when we could be looking towards Dubai. Perhaps arbitration in Islamic finance is something that the DIFC could take the lead on.

IFN: So how else could you address that – and where else could Dubai take the lead? Perhaps through the regulatory or legal framework?

Prasanna: In terms of the regulatory framework I think we are addressing all the key issues here at the DIFC. We address all sectors of the financial services industry, and the financial standards in Dubai are among the best in the world, including those of Islamic finance. If you look at global standards, if you look at what the Islamic Financial Services Board (IFSB) is doing, we are actually contributing in a big way, and we are ahead of what the IFSB is trying to do in many areas. But we are also very open to dealing with issues as they come. We are very flexible and we would be very happy to immediately address any specific need as it arises. So if there is a market innovation, if there is going to be a need for a specific requirement, we are well-positioned to deal with that quickly.

Abdulla: Didn't the DFSA recently consolidate the Islamic finance models into one handbook? I think that helped to streamline things, at least from the institutions' perspective, as a reference to requirements, and make things much easier to follow than before.

Prasanna: Yes, we have done that, and we have taken on board a lot of feedback from in terms of streamlining, for example, accounting standards, which was a big issue. That is something we can take the lead on – here, in Dubai the regulators have done a lot to address the specificities, which I believe will not place much constraint on growth. When it comes to the legal aspects however, I might not be the best placed to speak. We are aware of these legal and jurisdictional issues, but we come from a regulatory perspective so we look more at whether these are being adequately disclosed – we look more at the risks involved.

I personally believe that we need demand-driven growth that will create momentum to look at these issues and force progress. Takaful is a good example. For a long time we did not see much progress – but now that people are buying into the idea, that demand is really forcing growth. And if there is any bottleneck that impedes this growth, such as a jurisdictional issue, then the demand side will push for it be resolved.

IFN: So can we ever hope to achieve standardization?

Abdulla: I think the issue is that the standards themselves are quite broad. You are not talking about just one sector, but a whole ecosystem. That is why within our purview, the seventh pillar of standards and certification really addresses the rest of the six pillars. Historically speaking there have always been differences of opinions in Shariah. We have sects in Islam, we have different schools of thought – you will never change that. But what we can do is have a minimum agreement on what is acceptable and what is not acceptable, achieved through mutual recognition. Within the standards domain there is room to achieve that. Within the Halal sector for example, if the UAE can come up with Halal standards it could drive mutual recognition agreements across the OIC, with national and international bodies, to help drive trade. Because that is what this is all about – driving global Islamic trade and economic activity.

Prasanna: Just to follow up on that, this is an approach that we believe in as well. It is almost impossible to define one way of doing things across the world, and Islamic finance is no exception. Everyone wants to do things in a different way; there are cultural issues, social, and economic issues. Now, we must move onto what we call an outcome-based approach. The regulatory outcome is more important – we can outline the major elements but the regulatory approach doesn't matter as long as you achieve the right regulatory outcome.

Amat: Standards are necessary for any industry as they provide guidelines and rules and characteristics for activities to ensure that results are achieved. The main issue is not to standardize what is already in place but to make sure that there is some flexibility in addressing universal needs that may differ from one jurisdiction to another. In this instance, FAA supports the harmonization of standards to minimize any redundant or conflicting standards. Different jurisdictions have specific practices that are unique to them. In Malaysia, we have rationalized many of the legal requirements when it comes to the Islamic finance industry. Even judges have been trained in Islamic finance so that they are well versed when it comes to interpreting the law. I believe that we are living in a rapidly changing world and therefore we need to harmonize common standards. You also need to train participants to make sure they understand the Shariah principles. Dubai could take the lead to rationalize and integrate these standards, and become a reference center for the legal and tax framework.

> ***"We have seen other jurisdictions developing strategies that only focus on one or two sectors. But in our view these sectors are all inter-linked"***

IFN: Are there other jurisdictions that have achieved this better? How competitive is Dubai right now compared to other countries such as Malaysia, for example?

Bashir: I think Dubai is already very competitive and has a number of advantages. It is already an established financial center for the region, it is an attractive destination, great infrastructure, which makes it a desirable place for expatriates, scholars, accountants and lawyers to come and base themselves. There is the potential to develop a strong talent pool here. We have a stable economy and a very strong government, which has demonstrated its commitment to Islamic economic development.

But there have been a number of challenges, and I am coming from a legal perspective here. One of them, which Amat has already touched upon, is this question of standardization. A problem we encounter frequently is that if, for example, we are doing a syndicated finance transaction, and there are three or four Islamic institutions – their Shariah boards often don't agree on common terms. So the transaction gets delayed by months, or it goes away completely. Quite often we also end up with side agreements which are not shown to the Shariah boards, where the commercial guys say: listen, we will sign this separately – this document will go to our Shariah board and this other one will not. We have seen this happen time and time again to get through such deadlocks. I understand that we cannot unify different schools of thought in Islam. But extracting a universally accepted set of principles is something that Malaysia has done, and I think the UAE intended to do this but somehow has not managed it yet. The UAE Law regarding Islamic Banks, Financial Institutions and Investment Companies of 1985 provided that there would be a federal Shariah board or Shariah authority, and each bank was required to have its own board. The role of the local bank boards would therefore be to ensure compliance with the standards adopted at a national level.

IFN: So Malaysia has a national Shariah supervisory board, and I know Bahrain is considering the launch of a national Shariah board as well – is this then something Dubai will be moving towards?

Abdulla: Yes, we are discussing that right now. Even when we announced the Islamic economy strategy back in October

we highlighted the need to have a higher reference point for the Shariah scholars. There is merit in having a higher Shariah body that could ensure unified standards and that they are implemented.

Prasanna: Yes, and thank you to Abdulla and Bashir for highlighting this. We do believe that addressing the issue of a Shariah supervisory board is a key issue, and we soon will be coming out with what we believe could be a potential solution. Even if we do not need to necessarily have a national Shariah board that approves everything, we perhaps need some common entity that can assist in standardization. In our experience when firms come and try to do business here, that is one area where they find a lot of difficulty. In our rules we can recognize a standardized view or the views of a standardizing body, and as long as we are happy with its structure and its governance, we would recognize its work.

> ***"If there was a central Shariah board, then the role of the individual bank boards would largely be restricted to compliance with the standards and interpretations adopted by the central board. The individual bank boards are wearing too many hats right now and that is causing problems"***

IFN: Abdulla, you mentioned the Halal sector – but there are currently very few linkages between the Halal industry and the Islamic finance industry. How can these two pillars connect more closely?

Abdulla: It is not just these two sectors. All of the pillars we have identified have synergies with each other. They are all related at the end of the day. What we are doing, and others have not done to any great extent previously, is to look at the Islamic economy as a holistic entity. We have seen other jurisdictions developing strategies that only focus on one or two sectors. But in our view these sectors are all inter-linked . Islamic finance, for example, fuels activity across the various sectors of the economy. Is Islamic finance interlinked with the Halal segment? Yes it is, but it is linked with all the other pillars as well. The way we see the strategy is that you have three components. The first is the infrastructure: so you lay down the legal

framework, the regulations, the standards, the certification, etc. And then you have the real sector – which would include Halal products, tourism, lifestyle industries, real estate etc. And then the fuelling sector to fund this is the Islamic finance sector. This mechanism should underpin the whole of the Islamic economy.

IFN: But the Halal industry is currently largely financed by the conventional industry. How can we change that to get Islamic finance more involved?

Amat: Yes, the funding in Islamic finance should support the Halal industry. However it needs assistance in doing so. Sometimes the firm may be too small and it may not have access or the ability to conduct research it needs. Islamic finance should play a bigger role in offering the support.

Prasanna: And in some cases, the financial sector is not giving them equal products. You must offer Shariah compliant products which can compete on their own merit, not which are trying to compete with conventional products. They should be economically viable and they should not cost more. Initiatives like the new Center for Islamic Economy should be working on this.

Abdulla: But the problem is that a lot of things, especially related to liquidity, have been deemed impermissible by some schools of thought – such as Tawarruq. If I am a small business and need to generate liquidity, there are rulings that can inhibit this.

Bashir: We encounter that quite often in Islamic financing structures. For example, a small business might want an overdraft facility but how do you create that in an Islamic setting? Or take a Murabahah financing – in a small company, what material assets do you actually have to sell to the Islamic financier? The business will have a desk, a computer and some chairs, and yet the Islamic financier will buy them

for say US$1 million even though they are obviously only worth US$20,000 – but everyone just closes their eyes and agrees not to notice. And we see these challenges in both small and large businesses. What if you are financing an aircraft Islamically, and you want to serve alcohol on board?

We have seen side agreements to get around such issues particularly on large transactions. As an example, the income of a hotel is to be used as security for a financing deal, and this income includes revenue from alcohol sales. The Islamic lender in that syndicate cannot accept such tainted income, but the other lenders are happy to take it. Nevertheless, the Islamic lender still wants a share – so a side agreement is signed saying that, in the event of an enforcement, the other lenders hold that proportion of income that is derived from the enforcement action for the Islamic lender. Now that probably did not go through the Shariah board of that Islamic bank! But we do see agreements like this on a regular basis.

IFN: There have been accusations that the industry is bank-driven rather than responding to consumer needs. What are the gaps in products and services and how can this be addressed?

Prasanna: Currently in financial services, products are very often form-driven, not substance-driven. This often causes problems for the client, who ends up getting something they don't want. As a regulator we often have to deal with that. You can have a product that is touted and sold as something, but is actually something else. This can cause significant financial stability concerns. This divide needs to be bridged. A lot of blame lies with the Islamic banks that take a conventional structure, add Islamic bells and whistles, and present it as compliant – but actually they have just taken the short way out. There is a fundamental bridge there that we need to cross.

In fact, our Islamic banks cannot have deposit accounts. We only define them as profit and loss sharing (PLA) accounts. The problem is when banks call a PLA account a deposit account. They are giving a customer confidence that when he wants the money it will be there. If he doesn't understand the PLA concept, and the money is not there when he wants it, trust will be broken – and that is where the financial instability arises. Malaysia has gone a long way to support this. They have a restricted profit sharing account which they treat as a fund, and we have actually copied them to some extent in this. We need that kind of clarity. People who come to an Islamic bank or look for compliant investment know what they want but in many cases the industry just is not offering them that – it is in a hurry, they want a short cut, and they lack expertise. In Islamic banks a lot of the time they do not really know what they are doing, they just want to get the deal done.

> *"A lot of blame lies with the Islamic banks that take a conventional structure, add Islamic bells and whistles, and present it as compliant - but actually they have just taken the short way out"*

IFN: Dr Manshor, this is your area of expertise. Does Dubai need an FAA-type body?

Amat: Yes, it is very important for the Islamic finance industry to close the gap with the conventional, particularly in terms of the products and services that they offer. That is our limitation. We need innovation to keep up with

evolvement of the financial industry. Studies have shown that we lack in such expertise. So part of our priority is to develop highly competent practitioners in numerous areas. We have those initiatives, but we need them to be more holistic. There should be more collaboration across different sectors and jurisdictions, and between different operators, to ensure wider acceptance of harmonized standards. The challenge now is in education. We lack new Shariah scholars and there is no coordinated or concerted effort to develop this expertise.

> *There is a tremendous gap in Dubai right now, and that is because we do not currently have an institution that is turning out trained Shariah experts, who are familiar with modern financial practices and products*

Abdulla: Yes, the problem is that we do not see the newer scholars appearing and participating at Shariah boards, so the development of talent, as I mentioned earlier, is an important component of our Knowledge pillar. The envisaged higher Shariah body's mandate would include development of talent of Shariah scholars, mentoring, etc.

IFN: Surely the problem is a lack of consistency between jurisdictions. Could a global scholar qualification ever be a reality?

Prasanna: Qualification by itself will not solve this problem. It will bring in talent – but you should not be aiming for perfect harmony because it is not possible. And there has to be some level of force involved. Otherwise, people won't listen and they will keep taking shortcuts. This can come from a regulator, but the DFSA approach is different. We do not get involved in product regulation. Other regulators might, but we leave that to the boards.

Amat: In our proposition, we are trying to obtain acceptance of universal principles through the FAA Qualification Structure. This is more flexible and practical than imposing a set of standards. But we need to have an underlying structure in place wherever we are: whether in London, Dubai or Kuala Lumpur. This underlying structure is the common base after which a degree of flexibility can be introduced.

Abdulla: The Shariah scholars within the banks are still necessary. However, I think they should be focusing on ensuring compliance to the Shariah and to developed Shariah standards.

IFN: Islamic banks tend to be smaller and this does have an impact on their capacity for research and innovation. Does the UAE sector need consolidation, as Bahrain is working towards?

Bashir: Historically the UAE is overbanked, and the central bank would probably like to see consolidation happen. The problem is that this is applied to the whole industry, and even though there are fewer Islamic banks than conventional – there are still too many banks. Also, the UAE is a collection of seven emirates each with their own banks – consolidation of banks across emirates is unlikely to happen.

Prasanna: Yes, the UAE is an overbanked country. I do not get a clear indication that the central bank really wants to consolidate – but either way, banking is a scale business. We at the DFSA assess the risk level of small banks – because that is risky in terms of business. The attitude of Islamic banks here makes matters worse. In most cases they are form-driven, and just want to get things done quickly. That doesn't help in the long-term to attract more customers on board.

Bashir: Yes but this goes back to the issue we have had since 1985 that there is no central body giving guidance to these banks. If there was a central Shariah board, then the role of the individual bank boards would largely be restricted to compliance with the standards and interpretations adopted by the central board. The individual bank boards are wearing too many hats right now and that is causing problems.

IFN: Obviously Islamic banks cannot compete in size with the big conventional players – do you think we will see more conventional players moving into Islamic windows instead?

Prasanna: Yes, this is very possible. They all know that there is a demand, and it is done on a cost basis. But foreign banks are subject to a lot more pressures on a cost basis than UAE banks are. The international banks are answerable to shareholders and they will not do anything unless it makes a positive profit margin. So they will look at the cost and profitability concerns and if these work, they will open a window. It is much more cost effective to do this and if the regulator is happy, they will do so. In Qatar they closed Islamic windows – currently, we do not have

any plans to do that. We are interested in the business model only in terms of risk – we do not mind the business model and strategy as long as you do it properly without elevating the level of risk involved!

IFN: Whether a window, a subsidiary or an independent entity, there is concern that the Islamic industry is mimicking the conventional. Have you seen this?

Prasana: Yes, they are entirely based on form, not on substance. They don't create new products.

Bashir: On the asset side, the lending side, it is the same. There is no sharing of risk. They will take the full suite of conventional securities. Even if there is an assignment of tainted income – the Islamic banks still want to share in it. They are not developing or researching new ways to meet this problem.

IFN: So what is the solution? Can there ever be a solution?

Bashir: The solution is to develop some sort of central standards. Forget about global, we need to do this at a national level first. And then look at harmonizing them to some sort of minimum standards that can be applied globally.

IFN: Dr Amat, does human capital have a role to play here? If we had more experienced practitioners, would we get more innovative Islamic products?

Amat: Absolutely. There is a fundamental need at national and international levels for some form of consistency. When foreign banks venture into new territories their main objective is to meet national requirements effectively. We recently saw a major bank shut down many of their Islamic operations because they were struggling to keep them profitable. Expertise is very important not just in terms of compliance and supervisory elements, but also in terms of developing the contracts and products themselves. This is an area that needs to be developed, and Dubai could play a key role at a national level – to attract more development and banks by promoting unity and harmonization.

Bashir: I think there is a tremendous gap in Dubai right now, and that is because we do not currently have an institution that is turning out trained Shariah experts, who are familiar with modern financial practices and products. An education in Islamic law or Shariah tenets is not sufficient – you need to be familiar with the modern financial world and understand those relevant issues. We don't have that talent pool. If we did, the next step would be accreditation to get them up to scratch. I think there is a tremendous task ahead of us there.

IFN: Let's move onto the capital markets, where Dubai has taken a firm stance. What can we expect this year?

Prasanna: So far we have seen a lot of progress but I am not sure what will happen going forward. We are seeing an enormous amount of competition in the capital markets – globally the exchange business has become incredibly competitive. Profitability is going down, they are all fighting for more and more business onto their platforms.
On top of this there is more competition between the centers – London, Hong Kong, everyone wants a share of the pie. That is really going to test the competitiveness of the DIFC as a listing venue. The force coming from the Dubai Islamic economy initiative to drive more activity on this base, to drive more listing on the Dubai Financial Market (DFM) and NASDAQ Dubai – I think they could do a

lot more. When it comes to a choice of listing, I don't think there is coordination between the different elements of Dubai. So far there has not been a concerted effort to ask the DFSA what is being done and give feedback to see if the DFSA is going in the right direction. The industry needs to come back and tell the DFSA what more needs to be done.

IFN: Bashir, what are the drawbacks or challenges that the Dubai exchanges are facing – why aren't people listing?

Bashir: I really don't know. It seems to have an ideal body of rules, but somehow just has not taken off. Even with the DFM, which has been more successful, we have seen very few family businesses listing, on the equity side. One of the problems there is that the DFM requires a 55% minimum float, which means a family firm has to give up majority control. I am aware of a number of leading UAE families who have looked at listing and said no, we don't want to go that far. We have then looked at NASDAQ Dubai, which only requires 25% and gives a much better framework, but somehow they don't take the plunge there either – they do not feel that it presently has the depth or the volumes.

In Europe, there is a concept of passporting. When a company issues its prospectus, within a 12-month period that prospectus will be accepted in other European countries. Whilst those countries may have different standards, there is sufficient commonality to allow this. Perhaps that is a mechanism that could be used in Dubai, and across the Middle East.

IFN: What are Dubai's most compelling claims to be a center for Islamic economy?

Prasanna: There is a huge opportunity for Dubai as an Islamic economic hub simply because no one has so far addressed it at this level, and nowhere appeals on a commercial level the way Dubai does. Islamic finance obviously derives most of its attraction from this initiative. On its own, Islamic finance still has excellent prospects however, because the penetration in the GCC region is still very low. But its sustained long-term growth depends on the success of this Islamic economy initiative – and that depends on how much public force is put behind it.

Bashir: I think there is room for harmonization, and Dubai can take the lead in this. But if you look at products like Sukuk - look at the countries that have accommodated Sukuk such as the UK, France, Luxembourg, Ireland, Singapore, Hong Kong – these are not Islamic countries but they recognize the multi-trillion dollar potential of the Islamic finance industry. We have strong competition and it is not just Dubai and Malaysia anymore. So we need to keep an eye on what these other players are doing.

Abdulla: Because of its geographical location, Dubai exists in a region that is dynamic and surrounded by emerging markets. Its infrastructure is strong, and connectivity is crucial for suppliers in Asia who want to connect to Europe, Africa etc., on a hub-to-hub basis. This is another area that could be developed to establish Islamic strength to leverage the advantages that Dubai offers.

IFN: So to sum up – what in your view is the most important step Dubai should take to cement its position?

Prasanna: An initiative to research and drive innovation, combined with a national Shariah supervisory board.

Abdulla: I have come across a lot of ambitious goals from institutions calling for unification. I think if we arrive at a level where we have a universally accepted set of minimum standards, then this would be considered a great leap forward. If we can have clarity and certainty, over what is permissible and what is not permissible, it will go a long way to boosting investor confidence in the Islamic economy.

> *"If we can have clarity and certainty, over what is permissible and what is not permissible, it will go a long way to boosting investor confidence in the Islamic economy"*

Bashir: Investors and lawyers like certainty. Sitting around a table discussing it at an academic level, it is great to have a difference of opinion. But if we move this debate into the real financial sector, a lack of certainty can be disastrous and that is where problems arise. So I would like to see more work done on establishing unified harmony and agreement on some minimum standards.

Prasanna: I agree – businessmen are happy taking risk but they want to know what risk they are taking – right now they don't know that.

Amat: There are three areas Dubai needs to look at seriously. Firstly, on the regulatory level, it needs some kind of unification to ensure there is consensus in terms of conducting business. Secondly; it needs to look at the development of talent, with high-level research and innovation.

And thirdly, it has to ensure that plans are implemented. You may have excellent intentions, but poor implementation will prevent even the best of plans from achieving its goals.

DRIVING QUALITY EXCELLENCE

FAA

Finance Accreditation Agency

Overview

Finance Accreditation Agency (FAA) is an international and independent quality assurance and accreditation body supported by Central Bank of Malaysia and Securities Commision Malaysia. FAA is responsible for quality assurance and quality promotion of learning initiatives within the Finance Services Industry (FSI), including learning programmes and institutional accreditation, recognition of prior learning and promotion of future learning practices in the FSI. Through these initiatives, FAA aims to contribute towards promoting the highest standards in the development of talent for the FSI.

FAA Agenda

FAA provides accreditation services to local and international training providers with opportunities for learning recognition through accreditation, which amongst others provide the assurance that the accredited learning programmes have met international best practices and benchmarks.

The key functions of FAA are to:

- Ensure high quality assurance and accreditation practices in accordance with global standards and practices.
- Provide collaborations and affiliations for mutual and global recognition in quality learning.
- Promote and maintain the quality of human capital in the FSI.
- Leverage on the expertise and experience of industry practitioners from global leading financial institutions to provide assessment, review and recommendations towards enhancing the quality of training and learning programmes.

For more details, please visit www.faa.org.my