

Client: Lutetia Capital
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Call to Islam

France has ambitions in the world of Islamic finance, but asset managers are not convinced of the opportunity, writes Angele Spiteri Paris

The French government is attempting to make significant moves to set the country up as a European hub for Islamic finance, but for all the buzz that's been created around the topic, asset managers in France aren't jostling for recognition in this arena and aren't even terribly optimistic about the size of the potential opportunity.

Most of the CEOs we have spoken to in France have placed Islamic finance firmly on the back burner, despite the fact that France has the highest Muslim population in the EU and Sharia-compliant products would potentially go down well.

According to statistics from the EU-Malaysia Chamber of Commerce and Industry (EUMCCI), out of the 500m people in the EU, over ten million, or 3%, are Muslims and France, with 3.5m, has the largest Muslim population in Europe.

But in spite of this seemingly staggering potential, the asset managers are far from optimistic about the prospects of France's success in Islamic finance.

One industry expert says: "The flows into Islamic funds are not going to cause a revolution. Islamic finance is not going to be a blockbuster because no-one is asking for this product."

Dominique Carrel-Billiard, CEO of Axa Investment Managers, says: "We've experimented with Islamic finance and have some products which are Sharia-compliant. We have a few hundred million euros [invested in these products], but it's a very niche sector and we have other product development priorities at the moment."

In addition, Islamic finance is an onerous undertaking.

William De Vijlder, CIO of BNP Paribas Investment Partners & Alternatives, says: "The Islamic market is a very specific clientele so you have the marketing side to handle as well as the structuring of the Islamic products."

The asset manager's hesitation could also be bred by the fact that although the French government has made its intentions around Islamic finance clear, it hasn't yet taken much action on the matter.

De Vijlder says: "Once the French government makes a clear announcement on what it's doing regarding Islamic finance then we'd look at doing something in that regard."

But certain measures are already in place.

Carrel-Billiard, at Axa, says: "There's been a lot of preparations by the French authorities to create the adequate framework for Islamic finance – in terms of tax treatment, etc."

In fact, France now has a tax neutrality regime in place for facilitating Islamic financial products including Islamic bonds and certificates, cost-plus-financing, leasing and construction industry forward financing.

France's minister of economic affairs, industry and employment, Christine Lagarde, long ago stated her determination to make France, and Paris in particular, a centre for Islamic finance.

Fabrice Seiman, co-president of Lutetia Capital, says: "The growth in demand for Islamic finance impelled people in our country to get wise. To recover the ground we lost to London or Luxembourg, the French authorities, under the guidance of Christine Lagarde, recently developed the necessary regulatory instruments to address the particular requirements of Islamic finance."



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Changes in the law

Interestingly, the French parliament approved changes to allow Islamic sukuk bonds to be issued in France in September 2009, while the country was mulling the burqa ban. Both the change allowing the issue of Islamic bonds and the ban of the burqa went ahead.

It has been suggested that the change in French laws to accommodate for Islamic finance was more of a political stance by the government, rather than anything else.

Most recently the French government passed new instructions to facilitate the introduction of sukuk, ijara, murabaha and istisna products in France.

Passed at the end of July 2010, the new measures were published in an official government bulletin on 24 August and superseded previous instructions relating to these products.

Sukuk bonds are Islamic financial certificates, similar to bonds in Western finance. Ijara contracts can be likened to instalment leasing agreements and murabaha is a non-interest-bearing loan. Istisna is a contract of exchange with deferred delivery, applied to specified made-to-order items.

Rushdi Siddiqui, global head of Islamic finance at Thomson Reuters, says: "The French government may have planted the flag of wanting to be an Islamic finance hub by levelling the regulatory playing field, but that is minimal commitment. The government needs to establish or set aside funds for training people and local scholars. This may take time, but when combining 'faith and finance' you only get one good bite of the cherry."

Siddiqui says the French government also needs to increase education and awareness, which includes knowledge about what is and what is not Islamic investing.

He says the French government should also look to possibly seed money for some Islamic funds/ETFs and has to work closely with Islamic finance industry bodies.

But political motivations and necessities aside, asset managers understand that there is an opportunity in Islamic finance, however latent it may be.

Pierre Servant, CEO of Natixis Global Asset Management, says: "A reasonable chunk of market flows will go into Islamic products in the future. Logically, we should be looking at it. We were considering doing something in the space in 2005-2006, but then other priorities took over. We should have a range of Islamic products within the next five years."

Seiman, of Lutetia Capital, says: "The ball is now in the court of the asset managers, who must henceforth take up the instruments made available to them so as to propose innovative products that are compatible with Sharia law.

"We are fortunate at Lutetia Capital to have on our board a member of the Saudi royal family, and we are not ruling out a future launch of a fund dedicated to this type of clientele." ■

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