

Factors that are important to the establishment of an Islamic Finance Industry in Australia

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Important factors in the establishment

- Engagement of government
- Confirmation of the opportunity
- A smart approach to implementation

Engagement of Government

Government must be engaged in facilitating the establishment of Islamic finance activity in and from Australia by reference to:

- Australia as a regional financial centre
 - Renewed government ambition with the Commonwealth's Financial Centre Forum
 - With a particular focus on Financial services exports
 - An Islamic Finance Centre as a sub-set?
- Promoting financial services innovation
- Social Inclusion and Australia's Muslim population

Confirmation of the opportunities

Need to quickly achieve detailed consensus on the opportunity Islamic finance presents for Australia:

- Primarily global/regional wholesale cross-border Islamic finance eg:
 - tapping Gulf petro-dollar investment flows,
 - serving financial and non-financial institutions and HNWI in the region?
- Detailed dialogue between government and industry
 - involving regulators, industry bodies, key industry decision-makers
- Learn from other national strategies and responses – UK as an exemplar?

Gulf Petro-dollar investment:

	<u>2007 net capital outflow</u> USD Billions	<u>2007 foreign assets</u> USD Billions
Saudi Arabia	95	723
Kuwait	61	381
UAE	39	964
Qatar	13	115
Oman	5	45
Bahrain	2	19
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GCC	<u>215</u>	<u>2,247</u>

[Source: McKinsey]

Muslim populations in Asia (2007)

Indonesia	207m
Pakistan	160
India	135
Bangladesh	132
Afghanistan	32
Uzbekistan	24
China	20
Malaysia	17
Philippines	5
Thailand	3
Myanmar	2
Singapore	0.7
Australia	0.4

National strategies & responses

- GCC
- United Kingdom
- Asia
 - Malaysia
 - Singapore
 - Hong Kong
 - Japan
 - Indonesia

Potential specific opportunities for Australia include:

- Attracting foreign pure Islamic banks and conventional bank Islamic windows to establish new operations here
- Australian banks operating as Islamic finance liquidity counter-parties for Islamic banks in the region
- Australian banks advising, structuring etc Islamic product for corporations and governments in Australia and the rest of Asia
- Establishment and management of Islamic funds, including alternative asset classes, eg real estate, private equity, infrastructure, etc.
- Expansion of ASX (other exchanges tbc) activity and services
- Growth of commodities operations and services – brokering, warehousing, advisory, etc
- Provision of domestic Shariah-compliant/ethical financial services and products to Muslim and non-Muslim customers in Australia
- Australian headquartered banks exporting Islamic financial services through windows as they grow their operations into Asia.

A smart approach to implementation

- A legislative approach based on
 - Creating a level playing field between Islamic finance and non-Islamic finance
 - Religious neutrality
- Underpinning growth with a strategic focus on
 - Skills – Islamic finance training, education and research
 - Legislative and regulatory enablement and responsiveness
 - Promotion of Australia as an Islamic finance centre
 - Continual government/industry engagement
 - Professional services to support Islamic finance

UK Approach to the Taxation of Islamic Finance

“Alternative Finance arrangements”:

Tax law	Islamic finance
Purchase and resale	Murabaha
Deposit	Mudaraba
Profit share agency	Wakala
Diminishing share ownership	Diminishing musharaka
Alternative finance investment bond	Sukuk

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