

Opportunities for Islamic finance and products in Hong Kong

The Hong Kong government has a successful Islamic finance track record with three 'AAA'-rated US dollar-denominated sovereign Sukuk issuances, with the first in September 2014 being a US\$1 billion five-year Ijarah facility, the second in June 2015 being a US\$1 billion five-year Wakalah facility and the third in February 2017 being a US\$1 billion 10-year Wakalah facility, which were all listed on the Hong Kong Stock Exchange, Bursa Malaysia (Exempt Regime) and NASDAQ Dubai. AMIRALI B NASIR writes.



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The success of these issuances reflects international investors' confidence in Hong Kong's economic fundamentals. Prior to these issuances, the relevant laws relating to taxation and stamp duty were amended to allow for Islamic financial products and for parity with qualified debt instruments. Department practice notes provide detailed explanations for Sukuk or alternative bond schemes, as they are called in Hong Kong (Departmental Interpretation and Practice Notes No. 50: Taxation and Specified Alternative Bond Schemes, July 2014).

At present, the legal amendments allow for the following structures (i) lease arrangements (Ijarah), (ii) profit-sharing arrangements (Musharakah and Mudarabah), (iii) purchase and sale agreements (Murabahah) and (iv) agency arrangements (Wakalah). Investors seeking to develop products on different arrangements such as Al Mustathmirin al-Malak (angel investor) would have to consider whether the same can be structured under Hong Kong laws.

Hong Kong is a leading international financial hub and has showcased its competence to become a major Islamic finance hub because of its high liquidity, highly regulated environment, free economy, foreign banks, highly regulated professions, just and fair judicial system, excellent lawyers and foreign lawyers, international arbitration and mediation centers including HKIAC, AALCO and CIETAC and e-BRAM, simple tax systems, regulated insurance industry, effective anti-corruption program and cooperation agreements with Dubai and Malaysia.



Hong Kong and the Middle East

Hong Kong SAR Chief Executive John Lee's visit to the Middle East, in particular the UAE and Saudi Arabia in February 2023, rekindled connections for trade, investment and culture between Hong Kong SAR [Special Administrative Region] and the Middle East and showcased the future for the development of the two regions by leveraging on the potential for each region as well as the benefits of the Belt and Road Initiative (BRI) and the Greater Bay Area (GBA) initiative under the 'one country, two systems' principle.

Darryl Chan, the chief executive of the Hong Kong Monetary Authority, had **highlighted** the legal framework available in Hong Kong for the issuance of Sukuk as well as the business opportunities for Middle Eastern investors.

Hong Kong, Islamic finance and ESG

Hong Kong's position as an international financial center offers an ideal opportunity for investors to consider sustainability and ESG for Sukuk

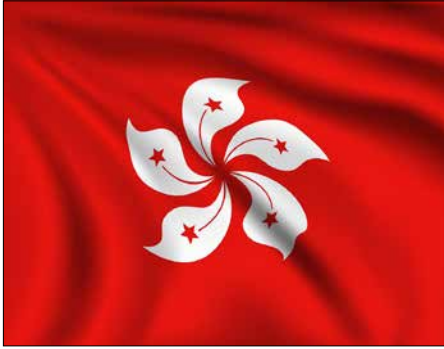
issuances and ESG initiatives which are compatible with Shariah principles.

Hong Kong's substantial financial services ecosystem, including green bonds, can be leveraged to provide Shariah compliant financial services including accounting, ESG reporting, fund administration, standard-setting, custody, valuation, order execution, credit risk, foreign exchange, investor reporting, compliance services and trust services within a strong regulatory environment.

Malaysia, which has good financial and cultural connections with the Middle East, has considered Hong Kong for ESG investing and other areas such as angel investing, crowdfunding, digital trade, e-commerce, electronic platforms and talent exchanges. These are areas which may be considered by innovative Middle Eastern investors.

Banking and insurance opportunities

Hong Kong has an established and regulated banking and insurance industry. Almost all of the major international banks have branches in Hong Kong and are licensed either as



fully licensed banks, restricted license banks or deposit-taking companies. These banks have the opportunity to open an Islamic banking window or offer financial products and services, subject to approval of the Hong Kong Monetary Authority. Insurance companies can also leverage the industry strengths to offer Takaful and re-Takaful.

Halal tourism

The Incorporated Trustees of the Islamic Community Fund of Hong Kong, which manages all the mosques in Hong Kong, has been providing Halal certificates to airlines, food outlets and food manufacturers locally and internationally for over 15 years. This month, three new KFC [Kentucky Fried Chicken] outlets in Hong Kong will provide a Halal menu. This then is an ideal platform to develop Halal tourism with all its elements involving air travel, hotels, restaurants, food outlets, Takaful, fashion, cosmetics, conferences, tours of mosques in Hong Kong, travel and development of an index like the SAMI Halal Food Index.

Family offices

Hong Kong also has a well-established system for the establishment of family offices and this can be leveraged to provide the development of the full range of private client services for high-net-worth individuals wishing to set out investments and trusts which are Shariah compliant.

Hong Kong is a free market economy with all the necessary ingredients for the establishment of an international Islamic financial hub. The Hong Kong government has facilitated Islamic finance through legislation and tested that legislation through sovereign Sukuk issuances. The BRI and the GBA initiatives offer a clear road map for issuers and investors in the next two to three years. (2)



EVENTS 2023

MAIN EVENTS



ISFI Dialogues
16th March
Dubai



IFN Qatar Dialogues
31st May
Doha



IFN UK Forum
4th September
London



IFN Oman Forum
12th September
Muscat



IFN Asia Forum
2nd October
Kuala Lumpur



ISFI Forum
3rd October
Kuala Lumpur



IFN Indonesia Dialogues
9th October
Jakarta



IFN KSA Dialogues
11th December
Riyadh



World Islamic Finance Dialogues
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