



Yasmin Ali
HMRC (Stamp Taxes)
Room 1/38
100 Parliament Street
London
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15 September 2008

Dear Yasmin,

Stamp Duty Land Tax: Commercial Sukuk Response to Consultation Document

Introduction

I am writing in my capacity of Chairman of the Business and Economics Committee of the Muslim Council of Britain (the "BEC"). The Muslim Council of Britain (MCB) is an umbrella organisation dedicated to the common good, to the betterment of the community and country.

Its objectives are:

- To promote cooperation, consensus and unity on Muslim affairs in the UK
- To encourage and strengthen all existing efforts being made for the benefit of the Muslim community
- To work for a more enlightened appreciation of Islam and Muslims in the wider society
- To establish a position for the Muslim community with British society that is fair and based on due rights
- To work for the eradication of disadvantages and forms of discrimination faced by Muslims
- To foster better community relations and work for the good of society as a whole

We welcome the opportunity to respond to the Consultation Document of 26 June 2008 (the 'ConDoc'). We are active supporters of the general consultation process and believe it can be of much help to Government, industry and professional advisors alike.

For the reasons we set out below, we are of the view that the proposed relief for commercial sukuk would assist the growth and development of this market within the UK and internationally as well. However, we have some concerns and suggestions regarding specific proposed requirements of that relief.

Reliefs for Islamic financing

We share our Government's view that there is great potential for London (and the UK more generally) to reinforce its position as a leading global centre for Islamic finance. We believe that the capacity for commercial innovation in the City is such that, with the right support from Government, the UK should be able to attract issuers and investors alike in what is an

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increasingly important and high-growth global business. We believe this initiative will further increase the goodwill for our Country's businesses in the Organisation of the Islamic Conference (OIC) world and increase our overall competitiveness.

Concerning commercial sukuk specifically, we are of the view that it should be possible to have a tax framework which makes issuing sukuk no less attractive than issuing conventional interest-based bonds.

Responses to ConDoc specific questions

In response to the 11 questions posed by the ConDoc, our comments are as follows:

Q1 *Do you support the principle of allowing a relief for sukuk issuance?*

BEC Response:

Yes, we strongly believe that there should be reliefs for sukuk issuance in order to create a level playing field for all forms of capital as indicated above.

Q2 *Would the restriction of the relief to only ijara sukuk be sufficient for the industry?*

BEC Response:

Such a restriction would almost certainly not be sufficient in the longer term.

We agree that, initially at least, the model most likely to be used in the UK will be that involving fixed assets under the ijara contract such that a regular income stream from a rental transaction is paid to the issuer entity for onwards transmission to sukuk investors.

However, as the ConDoc itself recognises (see paragraph 6.2 of the ConDoc), there are a number of different types of sukuk structure. In our view it is highly likely that, as the importance of this business grows, issuers in other sectors of our economy such as manufacturing, mining etc will look to other sukuk structures, such as mudaraba, musharaka and wakala, for attracting competitive funding for their companies. For example, sometimes the ijara model is not workable from a Shariah perspective, especially if the underlying asset is already leased.

The BEC also believes that increasing and broadening the scope of the relief will help our exporters.

Q3 *What are the likely costs of sukuk issuance compared to conventional bonds?*

BEC Response:

Currently, as with any new product the issuance costs are slightly higher than the costs of issuing conventional bonds. The costs of issuing sukuk are likely to fall over time as the volume of sukuk issuance increases and as the documentation becomes more standardised.

Q4 *Do respondents have a view on the likely eventual size of the UK corporate sukuk market in terms of (i) value and (ii) number of issuances per year?*

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BEC Response:

This is very difficult to predict, not least given the current global economic environment. We believe that there is tremendous potential for growth of sukuk, perhaps over time to make up 10% or more by value of all bonds issued by UK entities. However, as the ConDoc recognises (see paragraph 6.3), the value of the underlying assets has to be substantial (£100m+ is a fair estimate) to make commercial sukuk a viable proposition. The BEC has seen that in other OIC markets as the issuance costs go down and structural familiarity increases, sukuk volumes go up.

Q5 *How important is the need for asset substitution in a sukuk structure?*

BEC Response:

Most of the issuers both in the OIC world and probable issuers in our country have shown a preference for asset substitution. Asset substitution provides flexibility not only with sukuk but also in conventional arrangements.

Q6 *Who will be the likely issuers of UK sukuk?*

BEC Response:

We believe potential issuers could be both UK and International entities with a desire to tap alternative source of funding. We expect a higher take-up from the Shariah compliant list of Dow Jones Islamic index companies. Similarly UK companies doing businesses in the OIC world would have a preference for such issuance. More importantly in a global environment where issuers follow pools of capital we expect those companies which want to be included in the Shariah indices will want to replace their conventional debts with sukuk. The greater the flexibility in the scope of the relief for sukuk the bigger will be the take-up.

Q7 *Would the requirement for a UK agent cause any practical difficulties?*

Q8 *Are there any alternatives to using a UK agent?*

BEC Response:

Our response to Questions 7 and 8 combined is that we would like to see both UK and acceptable agents from other markets with standards similar to ours being allowed to act as agents for sukuk.

Q9 *Would a wide ownership requirement create any commercial difficulties?*

Q10 *Is the 10% ownership threshold too low? If so, what level is considered reasonable?*

BEC Response:

We believe that there is need for maximum flexibility, especially in view of global market conditions and tight domestic liquidity. We believe this is the time to welcome investors rather than put statutory limitations which will narrow and constrict the market. We regard this market as no different from the eurobond

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market and would advocate a similar approach; i.e. there should be no ownership restrictions on sukuk.

Q11 *In general, do you feel that the proposed relief meets industry requirements? If not, why not?*

BEC Response:

We believe that the proposed relief is a starting point and would help to kick start the market. However it would be a major loss for our country's competitive position to limit sukuk in either structural scope or by types of issuer or investor. We see synergy benefits from Islamic finance for our exporters of goods and our importers of capital in all areas of our economy.

There needs to be uniformity in the treatment for all taxes of sukuk and conventional bond transactions. Furthermore flexibility (see our response to Q7 and Q8) needs to exist in respect of the proposed UK agent requirements, which could become barriers to the issuance of commercial sukuk, thus limiting the success of the commercial sukuk market in the UK.

We hope the above is helpful to you and we would be pleased to meet with you to discuss our submission in further detail. Please do not hesitate to telephone Mohammed Amin on 020 7804 6703.

Yours sincerely

Mohammed Amin
Chairman of the Business and Economics Committee