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## **ALFI PUBLISHES BEST PRACTICES FOR SETTING-UP AND SERVICING ISLAMIC FUNDS IN LUXEMBOURG**

The Association of the Luxembourg Fund Industry (ALFI) today published its **Collection of best practices for setting-up and servicing Islamic funds** to provide a greater level of understanding and consistency of the requirements and expectations to this growing market sector.

“2012 has been a very active year for the Luxembourg Islamic finance community with several new Shariah-compliant funds launched. Luxembourg currently ranks No. 5 worldwide and first in Europe in the number of Shariah-compliant domiciled funds, at 41 funds with €4 billion in assets under management,” explained Marc Saluzzi, Chairman of ALFI.

Islamic funds are investment vehicles that follow the religious laws, known as Shariah. They operate under a strict set of prohibitions, including the charging and receiving of interest, speculation or investment in certain commodities such as pork related products or activities such as gambling. ALFI’s collection of best practices provides in-depth information and guidance on the legal framework, the fund set-up process, administration, custody and depository bank services for Islamic funds in Luxembourg. It also gives a high level indication of whether Islamic finance instruments are compatible with Luxembourg UCITS laws and should enable service providers who are already active in this field to align themselves with greater consistency and provide guidance to new entrants as to all the areas that need to be considered.

Mr Saluzzi continued: “Most service providers in Luxembourg already have dedicated teams looking at Shariah funds. This collection of best practices will further contribute to establish Luxembourg as the centre of reference for servicing Shariah compliant funds, whether they are domiciled here or elsewhere.”

Shariah-compliant investment funds are a natural development, given Luxembourg’s strengths in conventional investment funds and its international outlook. A number of Shariah-compliant funds have adopted the UCITS structure, given the focus on investor protection of UCITS funds and the fact that UCITS funds have rigorous investment policies that accommodate the principles underlying Islamic Finance well. UCITS funds benefit from a European distribution passport and can therefore be sold to retail investors across Europe. They are widely recognized in Asia, Latin America and the Middle East.

"Setting-up a Shariah-compliant UCITS fund in Luxembourg, opens the doors of the more than 70 countries around the world in which Luxembourg UCITS funds are currently distributed" said Saluzzi.

There are also a number of Shariah-compliant private equity and real estate structures established in Luxembourg and the European distribution passport created by the AIFM Directive will offer new opportunities for these products. "Shariah-compliant fund managers and investors increasingly look to Luxembourg for opportunities," Saluzzi said. "Luxembourg's reputation for high-quality fund regulation is growing in the Islamic finance community."

Luxembourg has a long history in Islamic finance. It first appeared in the Grand-Duchy in 1978 with the arrival of the first Islamic finance institution to set up in a western country. Five years later, the first Shariah-compliant insurance company in Europe was established in Luxembourg and, in 2002, Luxembourg was the first European stock exchange to list a *sukuk*.

The pace has picked up sharply in the past few years, reflecting the commitment of both the authorities and stakeholders in the financial sector to developing these activities in Luxembourg and in 2008, the government set up a task force to identify potential obstacles to the development of Islamic finance and ways to promote its growth. The group reported that Luxembourg was able to offer a range of vehicles addressing the specific needs of both investors and promoters interested in shariah-compliant investment with no need for specific additional legislation. In January 2010, the Luxembourg direct tax authority published a circular on Islamic finance, clarifying the tax treatment of *murabaha* contracts and *sukuk* transactions. This was followed, in June 2010, by a circular from the indirect tax authority clarifying the treatment of *murabaha* and *ijara* contracts.

ALFI's work with Islamic funds dates back to 2008, when it launched a working group focusing on two trends: the rapidly increasing number of investment funds originating from or investing in the MENA region and the creation of Islamic investment funds in Luxembourg. This set of guidelines is one of the outcomes of this working group. In 2009 ALFI launched its first working group outside of Luxembourg in Dubai. This group gathers monthly and comprises Luxembourg expats as well as local players working with the country.

"The launch of a dedicated taskforce by the Ministry of Finance at the same time as the ALFI working group was a cornerstone in the development of Islamic Finance in Luxembourg. With its well-adapted regulatory and tax framework, global distribution expertise and strong commitment from both the authorities and the private sector to develop this market sector, there is no doubt there will be interesting developments in Luxembourg in the near future" Saluzzi concluded.

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**Notes to editors:**

**The Association of the Luxembourg Fund Industry (ALFI)** is the representative body of the Luxembourg investment fund community. Created in 1988, the Association today represents more than 1,300 Luxembourg domiciled investment funds, asset management companies and a wide range of service providers such as depositary banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax experts, auditors and accountants, specialist IT providers and communication companies. The Luxembourg Fund industry is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg-domiciled investment structures are distributed on a global basis in more than 70 countries with a particular focus on Europe, Asia, Latin America and the Middle East. For further information, do not hesitate to consult our website at [www.alfi.lu](http://www.alfi.lu).

You can also keep up to date with the discussion by following [@ALFI\\_funds](https://twitter.com/ALFI_funds) on Twitter or join [ALFI's LinkedIn group](#).