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SEMINAR ON ISLAMIC FINANCE

"The Real Economy and the Financial Sector"

24 May 2016 | Madrid, Spain

The Global Financial Crisis (GFC) of 2008-09, and its aftermath, has reignited policymakers' interest on the interactions between the real economy and the financial system, along with the opportunities and challenges that these interactions may bring. More specifically, the effects of the GFC have triggered calls for a re-design of international policy frameworks to strengthen the link between financial transactions and the real economy. Absence of a close linkage in this relationship often results in a bloated financial sector crowding out the real economy, the consequence of which is an excessively leveraged economy that increases the vulnerability of an economy to financial crises and turmoil.

Islamic finance principles, and financing modalities, have advanced a different paradigm for financing real economic activities that revolves around the concept of risk sharing. Whether by way of *Sukūk*, Profit and Loss Sharing Accounts (PSIAs) in banking institutions, equity-based financing for both the public and private sectors, micro-finance, amongst others, Islamic finance has been promoting a more equitable risk and return framework for the various economic agents. This, coupled with the direct nature of financing for particular activities, offers insights in the discourse on the reform of the global financial architecture to promote not only resilience and stability, but also financial inclusion.

The one-day 'Seminar on Islamic Finance' is designed to encourage broad interaction among the delegates to explore the potential re-alignment of economic policy frameworks in a manner that strengthens the linkages between the real economy and the financial sector. To this end, the Seminar will offer some perspectives of Islamic finance principles, and financing modalities, which directly relate to the real sector from both the viewpoints of risk and return. In particular, the Seminar will also provide an opportunity for a global policy dialogue among high-level policymakers, including governors of central banks, regulators, conventional and Islamic finance standard setters, leading private and public sector financial institutions executives, and academics, to contemplate on the proposals for promoting risk-sharing / equity-based financing and its relevance for achieving the objectives of a resilient, stable and equitable global financial system.

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PROGRAMME

Time	Session
08:30 – 09:30	Registration
09:30 – 10:00	Welcoming Remarks
10:00 – 10:30	Keynote Address
10:30 – 11:00	**Coffee Break**
11:00 – 12:15	**Session 1: Panel Discussion - Islamic Finance: Legal and Regulatory Considerations** *The rapid growth of Islamic finance in recent years has spurred increasing interest in the subject including in Europe. Estimates indicate the size of Islamic finance assets in Europe range between $60 billion and $70 billion as of end-2014. Almost 40 banking institutions have Islamic banking operations across the European continent, while in the Islamic capital market segment, a total of 294 Islamic funds were domiciled in Europe (as of Sept 2014). Similarly, Sukūk has been used as a fund-raising instrument across the United Kingdom, Luxembourg, Germany and France with the former two having floated debut sovereign Sukūk in 2014. Fundamental to sustaining the growth of Islamic finance growth in Europe is, among other factors, an enabling environment with an appropriate regulatory and supervisory framework, and supporting legal basis, that provides for a level playing field. The scope and implementation of the needed legal and regulatory reforms can differ across jurisdictions but contain certain core elements that can draw from international core principles and standards with a view towards strengthening real sector linkages.*
12:15 – 13:30	**Session 2: *Sukūk* – A Growing Alternative Asset Class to Fund the Real Sector** *In the backdrop of global macroeconomic challenges and financial pressures in major markets, the fast expanding global pool of Sharī`ah-compliant capital has become an attractive source over the years for various sovereigns, government-related entities and corporates to tap into in order to meet their financing needs. In particular, Sukuk instruments have gained widespread acceptance among stakeholders as economically viable tools to achieve funding diversification and offer tailored financing (especially for infrastructure investments). In the past five years, global Sukūk outstanding has been the fastest expanding asset class in the Islamic financial services industry, achieving a compounded annual growth rate of more than 19% (2009-2014). Nonetheless, several key imperatives remain in order to expand the role of Sukuk in funding the real sector. Among these are reforms to taxation and the development of the legal and regulatory framework that accommodates the specificities of Sukūk; strengthening the market infrastructure to support the intricacies of Sukūk structures; supporting liquid and active secondary markets (e.g. by a regular Sovereign/Central Bank Sukūk programmes of different maturities to establish a benchmark yield curve); and other necessary considerations such as dispute resolution frameworks and Sukūk insolvency regimes.*
13:30 – 14:30	**Lunch**

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14:30 – 15:45	**Session 3: Equity-based Financing and its Effects on Macroeconomic Resilience** *A series of recent studies, including some published as working papers by the IMF, have suggested that all crises of the past have been, at their core, debt crises, regardless of whether they were labelled as 'currency' or 'banking' crises. As such, some experts argue that an economic model based on equity-based principles where the rate of return to finance is derived directly from the rate of return to the real sector, produces a stable equilibrium and avoids the mismatches of maturities and values between assets and liabilities. In an economy that where equity-based financing is endemic (e.g., mortgage finance, corporate finance, etc.), as prices fluctuate in the real sector so do the value of financial assets; hence, assets and liabilities of economic agents vary in the same direction. The importance of this framework can be considered in light of the global financial crisis and its relationship to housing finance and macroprudential risks and their management.*
15:45 – 16:15	**Coffee break**
16:15 – 17:30	**Session 4: Banking the Unbanked: Enhancing Financial Inclusion using Risk-Sharing Instruments** *Enhancing financial inclusion is a common objective for many governments, central banks and international organizations based on evidence from research that suggests that financial inclusion plays an important role in poverty reduction, reducing income disparities and increasing economic growth. However, the formal financial sector often fails to adequately meet the needs of the perceived riskier borrowers of a particular society given their inability to furnish collateral; this category includes microfinance for the lower-income households, financing for small and medium enterprises, and micro-insurance to others. As a solution, some experts suggest that the use of risk-sharing contracts provide a viable alternative to debt-based financing for meeting the funding needs of the financially excluded segments. Currently, such risk-sharing models are beginning to be implemented by the informal financial sector consisting of NGOs, private-equity and crowdfunding platforms, and so on. As the scope of such financial models expand, policymakers may consider formalizing the use of risk-sharing contracts as an alternative to debt-based financing to enhance financial inclusion. This would critically require strong regulatory support, for instance, in removing regulatory and tax impediments to risk-sharing contracts and strengthening the overall financial inclusion market infrastructure (e.g. crowdfunding platforms, accommodative regulatory guidelines, etc.)*
End of Seminar	

- *The IFSB, BDE and IE Business School reserve the right to make any necessary amendments/changes to the programme without prior notification.*