The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Islamic Finance in Russia – Developments in 2010

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December 13, 2010





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It has been a year since the first conference on Islamic finance in December 2009. Over the year there have been quite a number of significant events taking place, all of which will influence the development of Islamic finance in Russia. Among these, the major milestones are the establishment of the Russian Association of Experts in Islamic Finance; the first Halal Expo Exhibition; publication of an authorized translation of the Accounting and Auditing Organization for Islamic Financial Institutions' Standards of Islamic Finance Transactions; and the first Islamic finance deals on the Russian market.

As part of the wider growth process of specialists focusing on Islamic finance, the Association of Experts of Islamic Finance was established in early 2010. At present it has 76 members and 11 candidates from seven Russian regions. To become a member, candidates should demonstrate an adequate level of knowledge and obtain recommendations from two existing members of the association.

The first Halal Expo Exhibition took place in June 2010. This was a three-day event, which gathered more than 60 producers of halal goods and services from 10 countries. Companies demonstrated the advantages of their products to the several thousand visitors that attended. The event was supplemented with a seminar on Islamic finance that attracted the participation of representatives of one of the largest Islamic banks Al-Baraka and of the Malaysian Central Bank.

The first publication in Russian of the authorized Accounting and Auditing Organization for Islamic Financial Institutions, or Aaoifi, standards was one of the year's important events. Assisted by Pepeliaev Group, the Russia Council of Mufties in association with the RAEIF translated and published such standards as "murabaha" (sale on credit), "sukuk"

(securitization) and “takaful” (Islamic insurance).

The presentation of these published standards took place in Moscow in October 2010, with the participation of Aaoifi head Dr. Mohamad Nedal Alchaar.

One of the most important developments was investment by a Malaysian fund in facilities related to production and distribution of halal foodstuffs in Tatarstan.

Despite numerous complaints with respect to the tax and legal obstacles to implementing Islamic finance in Russia, it was possible to find adequate solutions for investment that were compliant with both Russian legislation and sharia principles. Russian lawyers, in cooperation with Malaysian colleagues, provided all the necessary support in respect of services required for this investment.

2010 saw issues of several sukuks in Europe, in particular in the field of aviation, i.e. the leasing of aircraft. Although transactions did not involve Russian companies, there are no major obstacles to conducting similar financing projects in Russia. We expect the first Russian sukuk to be issued in 2011, as the market is recovering and Russia appears to be attracting the interest of foreign investors, also from the Middle East and North Africa.

At present, the Russian legal and tax environment is able to accommodate most of the classical Islamic finance transactions, and there is growing number of experts who know the field, and so executing Islamic finance projects in Russia is rather more a matter of selecting the appropriate investment projects than issues relating to tax and legal support surrounding implementation. For the latter, there are appropriate solutions under existing laws.

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