

# Changes to Law Needed to Facilitate Sukuk Use

By [The Moscow Times](#)

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JAKARTA — Russian borrowers are pitching plans to sell the nation's first Islamic bonds even as regulators lag behind in customizing laws for the industry.

Executives from Gazprombank, the lending arm of gas export monopoly Gazprom, are in Southeast Asia to seek support for issuance by as many as five companies, Alexander Kazakov, director of structured and syndicated finance at the bank, said in Jakarta. Tatarstan, a Muslim-majority Russian republic, will announce a dollar-denominated sale soon, according to Kuala Lumpur-based adviser AmanahRaya Investment Bank, which is working on the proposal.

Russia would join Thailand and Senegal in planning debut sukuk this year, helping accelerate global sales that increased 24 percent to \$7.8 billion in 2011. Russia needs to change its legal framework to ensure sharia-compliant transactions get the same tax treatment as non-Islamic finance, said Aznan Hasan, associate professor at the International Islamic University

Malaysia.

"It's still very early days for Russia," Aznan said. "A lot needs to be done before the first sale can happen. They need to level the playing field mainly for taxes."

Islamic bonds pay a return on assets and may attract double charges on stamp duties due to the sale and purchase of goods to back the debt, Aznan, who was in Russia to speak at a conference last month, said June 8. Profits or capital gains incur taxes whereas interest is tax deductible, he said.

VTB bank aims to raise about \$200 million this year selling debt that complies with Islam's ban on interest, Herbert Moos, the lender's deputy chairman, said in April.

The debut sale from Tatarstan will happen even as tax regulation issues linger, Adalet Djabiev, chief executive of Al Shams Capital Group, a Moscow-based sharia-compliant advisory firm, said June 8 from Astana, Kazakhstan.

"The Russian tax code and legislation in general create obstacles for Islamic finance," Djabiev said. "We are not supported by the government or by the legislators. The regulators and the government today for different reasons are almost ignoring this phenomenon."

AmanahRaya Investment Bank, part of Kuala Lumpur-based AmanahRaya Capital Group, together with Kazan-based financial advisory firm Linova and Kuwait Finance House (Malaysia) are "finalizing the official mandate for the sukuk issuance" after conducting preliminary studies, Abas A. Jalil, chief operating officer at AmanahRaya Capital Group, said by e-mail Tuesday.

"The sukuk will be offered to investors in Southeast Asia, Europe and the Middle East," Abas said. "We expect the sukuk would be fully subscribed by sharia-compliant funds across the targeted market." AmanahRaya expects regulatory changes to be made to enable the offering, Abas said.

Sharia-compliant notes have gained 5.5 percent in 2011, according to the HSBC/NASDAQ Dubai U.S. Dollar Sukuk Index, while debt in developing markets has climbed 4.5 percent, JPMorgan Chase's EMBI Global Diversified Index shows.

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