

A photograph of a mosque with large domes and minarets under a blue sky. The domes are covered in a light-colored material, possibly lead or copper, and have golden finials. The minarets are tall and slender. The sky is a clear, pale blue.

# Islamic Finance

**MTCM**  
— ASSETS & INVESTMENTS —

# Islamic Finance

## Application for Luxembourg securitization vehicles

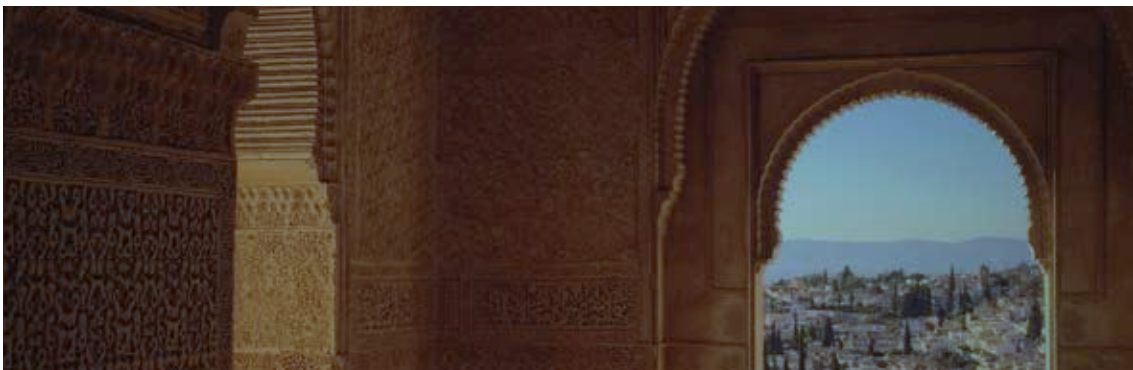
### Introduction

Luxembourg is active in Islamic Finance since 1978: since then, Islamic banks and insurance companies have been incorporated in Luxembourg, the BCL became member of the Islamic Financial Service Board and the Luxembourg Stock exchange was the first European stock exchange to list Sukuk (often referred to as Islamic bonds). Most leading financial players in Luxembourg have now specialized teams in Islamic Finance.

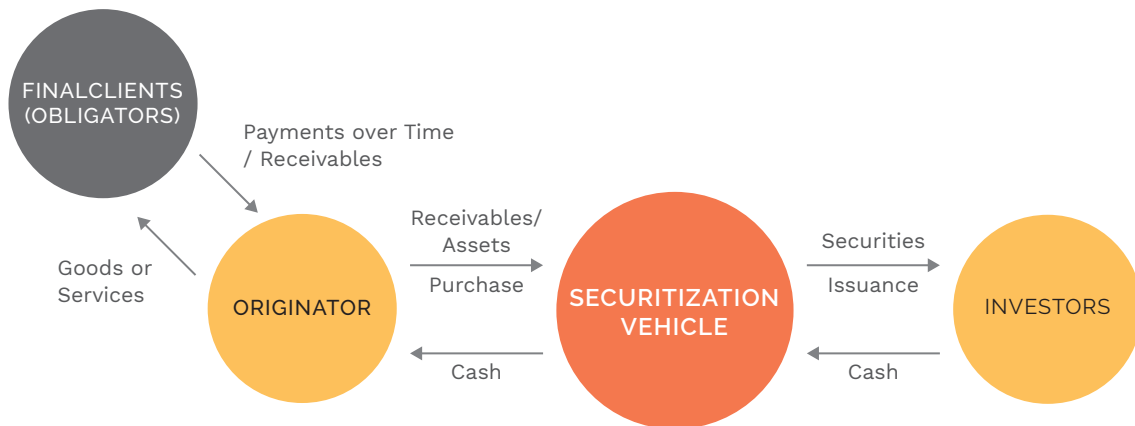
Islamic Finance products follow the characteristics of being asset-based or asset-backed. As such, an asset backed security or securitisation vehicle seems to be the natural fit for structuring Islamic Finance transactions. However, Islamic Finance does not allow for investments into interest-bearing (“riba”) products, speculation, or investments in certain activities. Furthermore, the security issued shall also not be interest-bearing but based on a participation of business risk.



One application for Luxembourg securitisation vehicles is their use within Islamic Finance transactions.



# Structuring Process for an Islamic Finance Securitisation



The former depends on the type of asset acquired (they need to be Shari-ah-compliant) while the latter is usually resolved by giving ownership rights to investors and/or the issuance of Sukuk. Since the Luxembourg Securitisation Law is not restrictive on the type of assumed asset and risks, it is easily possible to securitise “real” assets other than interest bearing assets. Furthermore, the Securitisation Law provides high flexibility with regard to the type of securities issued which may be an equity instrument of Sukuk.

## Risk Transfer

Securitisation transactions can be executed in two forms.

**1** Within the scope of a **“true sale”** transaction, the originator sells the ownership in a pool of assets to a securitisation vehicle.  
Examples of **“true sales”** Risk Transfer - Securitisations:

- Mortgage Loans
- Intangible assets
- Trade Receivables
- Tangible assets / commodities
- Fund Investments,
- (Non-) performing Loans,
- Securitisation of future claims

**2** Within the scope of a **“synthetic”** transaction, however, the originator buys credit/market risk protection (through a series of credit derivatives or swaps, guarantees or similar), without transferring the ownership of the underlying assets.  
Examples of **“synthetic”** Risk Transfers - Securitisations:

- Performance of assets
- Stock Index performance
- Obligation of third parties
- Whole business securitisation
- Activities of third parties
- Securitisation of future claims



Sukuk are defined by the Accounting and Auditing Organization for Islamic Financial Institutions (“AAOIFI”) as: “certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs, and services or (in the ownership of) the assets of particular projects or special investment activities”, i.e. a kind of asset-backed security. However, they do not simply represent a securitisation vehicle’s debt obligation but ownerships in stakes in well-defined asset. Their value directly depends on the market value of the underlying assets including a participation in potential losses. The link to the securitized assets is thus more direct than for a classic securitisation transaction.

As such, Islamic Finance under the Luxembourg Securitisation Law can be a powerful financing and investment tool, not only for Muslim investors but also for the non-Muslim world. Furthermore, Islamic Finance is often associated to a more sustainable way of financing especially after the financial crisis – and as such, it represents an interesting symbiosis with securitisation.



## About MTCM

MTCM Investment AG is a leading provider of advisory services for Alternative Investments. Our background in structuring and issuing of investment vehicles/products within the top Investment Banks and our solid know-how in the Alternative Assets and Derivatives Market build the core strengths in order to provide you with the most innovative Investment ideas and implementations.

A solid basis of trust, short communication channels and transparency will ensure to be your advisor of choice. We aim to be the best and most respected independent investment advising firm by providing outstanding client service. Our fundamental values consist in transparency, excellence, innovation and dedicated service for our partners and their needs.

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