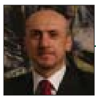
Italy: Opportunity arises for Islamic finance



ITALY

By Stefano Padovani

This year, August, the typical vacation month for Italians, has seen a tragic event that has affected some cities and villages in central Italy which suffered a violent earthquake, causing hundreds of deaths. Although the catastrophe has shocked the entire country, the government has immediately taken steps to rebuild private houses, public buildings, monuments, schools and roads in the towns hit by the earthquake, though restraints on the public budget and deficit may hinder the timing and effectiveness of such actions.

However, finance needs resulting from the earthquake could be an opportunity to concretely develop Islamic finance in Italy as an instrument to fill the gap between a large public project demand and available funds. Indeed, the public sector has always sought, mainly through public-private partnerships, alternative opportunities in order to finance its infrastructure projects and Islamic finance could be a helpful instrument to finance the reconstruction.

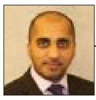
> ***"The public sector has always sought, mainly through public-private partnerships, alternative opportunities in order to finance its infrastructure projects and Islamic finance could be a helpful instrument"***

This has also been envisaged by the G20 Investment and Infrastructure Working Group that, along with the G20/OECD Task Force on Institutional Investors and Long-term Financing, has included the issuing of Sukuk among the possible alternative sources of financing.

Of course, an Islamic onshore financial institution could facilitate the structuring and underwriting of Islamic finance projects in Italy and the establishing of such an entity remains on the agenda of those willing to open the door to Islamic finance in Italy.

Stefano Padovani is the partner of banking and finance at NCTM. He can be contacted at s.padovani@nctm.it.

Qatar: Quiet Qatari summer



QATAR

By Amjad Hussain

Perhaps it is not surprising that the summer of 2016 has been a quiet one from a business perspective in the Qatari market. While it is the usual trend in the business cycle for business activity to decrease during the summer period, the 'longer summer period' due to Eid Al Adha falling in the middle of September has elongated that period this year. Yet, despite this, there has been some considerable activity by Islamic banks and other institutions over the past month or so.

Perhaps the headline transaction that concluded over the summer was the acquisition by Qatar Investment Authority (QIA), the sovereign wealth fund of the State of Qatar and the ninth-largest wealth fund in the world, of a 9.9% shareholding interest in Empire State Realty Trust, the owner of the Empire State Building in New York. The deal was announced in August 2016. According to media reports, QIA acquired 29.6 million newly issued Class A common shares at the price of US$21 per share with the total value of the investment amounting to approximately US$622 million. The announcement of this investment came at a crucial time to reaffirm confidence in the Qatari market and to respond to any doubt that investments by the State of Qatar will decrease or that the Qatari market will depreciate or enter into a period of downturn. This is clearly good news for the Islamic finance industry.

A number of banks have also announced pivotal transactions over the summer period. Qatar Islamic Bank (QIB) announced on the 1st September that it has raised QAR2 billion (US$548.8 million) in Basel III compliant additional Tier 1 perpetual Sukuk. In its announcement, QIB cited that the purpose behind the issuance of the Sukuk is to enhance its capital adequacy ratios and to support its future business growth. Additionally, Qatar International Islamic Bank announced in August 2016 that it has raised QAR1 billion (US$274.4 million) through the local issuance of Sukuk. In its announcement, QIIB stated that this was its first issuance to ensure compliance with Basel III.

Elsewhere, Qatar National Bank Group announced in August 2016 the bond issuance of a US$1 billion tranche under its euro medium-term note program in the international capital markets. The issued bonds will mature in five years and have a fixed rate coupon of 2.13% per annum. This bond issuance marks the second bond issuance by the QNB Group within three months after the inaugural issuance of Tier 1 perpetual capital notes for US$10 billion back in June.

Despite the quiet period of the summer, Islamic banks in Qatar have focused on sorting out the internal capital requirements over the summer. As autumn approaches, we anticipate that business activity will increase.

Amjad Hussain is a partner at K&L Gates. He can be contacted at Amjad.Hussain@klgates.com.